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# Funding Matters: The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations

2003

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Canadian Council on Social Development

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The analysis, views and opinions expressed are those of the author and do not necessarily reflect the position or policies of the NVO, the VSI, or the Government of Canada.

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*To my parents, who exemplify the giving spirit of volunteers in Canada.
They make a difference every day.*

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# Preface

There is widespread interest in the nonprofit and voluntary sector in Canada. At the same time, it is surprising how little we know about it and its role in Canadian society. This is particularly startling given the expectations that are placed on the nonprofit and voluntary sector – by governments seeking to off-load public programs and services, and by citizens who expect high levels of service and diverse opportunities to participate in community life. Yet demands on the sector have not been matched by commensurate human or financial resources. Many nonprofit and voluntary organizations struggle for survival day to day.

The erosion of the financial capacity of nonprofit and voluntary organizations has prompted particular interest and reflection on the part of the sector and its funders. Nonprofit and voluntary organizations receive funding from a variety of private and public sources – such as donors, foundations, governments, corporations, individuals, earned income – and through a variety of mechanisms – such as tax assistance, grants, contracts, and contributions. Divergent funding policies, regulations and practices work singly or in combination to facilitate, or hinder, nonprofit and voluntary organizations in pursuit of their missions. Recent trends in funding, however, appear to threaten the continued viability of the sector. The shift away from core funding that is evident across Canada, to name just one example, has heightened competition among nonprofit and voluntary organizations for increasingly scarce resources. Much organizational time is now devoted to chasing short-term sources of funding, often at the expense of the organizations' mission and core activities.

The primary objective of this study is to document the changing funding landscape in Canada and to assess the impact of these changes on the financial capacity and long-term sustainability of nonprofit and voluntary organizations. Through our study, we hope to bring to light the challenges and opportunities that nonprofit and voluntary organizations in a variety of sectors face in trying to fulfill their missions, because a strong foundation of knowledge is key to developing concrete recommendations and options for funding policies and practices that will enhance and sustain the vital activities of nonprofit and voluntary organizations in communities across the country.

This is the final report of the Funding Matters project. A Summary Report is also available in English and French. The final report and summary will be available electronically on the Canadian Council on Social Development's website at www.ccsd.ca.

The Canadian Council on Social Development (CCSD) has undertaken this project in partnership with the National Coalition of Voluntary Organizations (NVO).The research was commissioned by the Working Group on Financing, under the auspices of the Voluntary Sector Initiative (VSI). The VSI is a joint undertaking between the voluntary sector and the Government of Canada. Its long-term objective is to strengthen the voluntary sector's capacity to meet the challenges of the future and to enhance the relationship between the sector and the federal government in order to better serve Canadians. The research has been supported financially by the Government of Canada through the Voluntary Sector Initiative.

*Marcel Lauzière*
President
Canadian Council on Social Development

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# Executive Summary: A Warning and an Opportunity

The capacity of the nonprofit and voluntary sector to fulfill its important role in Canadian society is being undermined and eroded by new funding strategies that are intended to increase accountability, self-sufficiency and competition.

This study describes the emergence of a new funding regime for the nonprofit and voluntary sector and warns of serious challenges for the sustainability of a cross-section of organizations. Instability of this sector threatens the future of a diverse range of social, health, cultural, recreational, environmental, and other not-for-profit community services for millions of Canadians.

The findings in this report are based on a series of focus groups held in different regions of the country and attended by more than 100 nonprofit and voluntary sector organizations, as well as roundtable discussions with funders and interviews with key informants, responses to a written survey of nonprofit and voluntary sector organizations, in-depth case studies, and a review of other research.

The sense of alarm expressed by the nonprofit and voluntary sector community stems mainly from **how** organizations are funded. Many organizations that survived government funding cutbacks of the 1990s are financially fragile because they are now dependent on a complex web of unpredictable, short-term, targeted project funding that may unravel at any time.

This study was done for the Working Group on Financing, a subgroup of the Capacity Joint Table of the Voluntary Sector Initiative (VSI). The VSI is a joint effort by the federal government and representatives of the nonprofit and voluntary sector to strengthen the sector's capacity to meet the challenges of the future. The purpose of this study was to identify current sources and mechanisms of funding for nonprofit and voluntary sector organizations and to explore the differential impacts affecting sustainability.

The study found that on the funding side:

- Funders are adopting an increasingly targeted approach to funding.
- There has been a marked shift away from a core funding model, which funds organizations to pursue their mission. The new model is project-based and is characterized by contracts that give funders increased control over what the organization does and how it does it.
- Funders are reluctant to fund administrative costs that cannot be directly tied to a project or program.
- Funding is being provided for shorter periods of time, and is increasingly unpredictable.
- Reporting requirements have increased.

- Funders are increasingly requiring organizations to make joint submissions with other project partners and to demonstrate that they have secured funding from other sources – either financial or in-kind contributions – before extending their support.

No one disputes the right of private donors to allocate their money as they see fit, whether it involves individual or corporate giving. This study describes concerns in some quarters about the trend among private corporations to replace donations with sponsorships. But the major, overriding concern is about the new funding strategies of governments, which are the largest funders of the nonprofit and voluntary sector in Canada.

To be clear, the participants in this study were generally supportive of the stated motives of funders to increase accountability, support partnerships, promote diversification of funding sources, and foster efficiency and innovation within the sector. However, the study found a major disconnect between the stated intent of funding reforms and the consequences of these changes for nonprofit and voluntary sector organizations across the country.

Recognizing that organizations are coping with current realities in a variety of ways and with differing levels of success, the study has identified some worrisome trends:

- Volatility – As organizations struggle to diversify their funding sources, they can experience huge swings in revenue. This volatility undermines an organization's stability and its capacity to provide consistent, quality programs or services, to plan ahead, and to retain experienced staff.

- A tendency to "mission drift" – As organizations scramble to qualify for narrowly prescribed program funding or to win government contracts, some are being pulled away from their primary mission, which is their long-term purpose and the source of their credibility within the community.

- Loss of infrastructure – With the move to project-based funding and the tightening of restrictions on administrative costs that will be covered by funders, some organizations are losing their basic infrastructure. They are becoming a series of projects connected to a hollow foundation.

- Reporting overload – Many smaller organizations are losing heart as they face yet another round of short-term contracts, short-term hiring and letting-go of program staff, all the while pursued for multiple reports from multiple funders with multiple forms and requirements.

- House of cards – Because funders often now require financial or in-kind contributions from other sources, the loss of one contract or the end of one partnership agreement can bring down the whole interlocking structure. A service that is thriving one year can collapse the next. Organizations despair of arrangements in which funders will not commit until other funding partners are on-side, the last one standing being the preferred position.

- Advocacy chill – When organizations must cobble together different projects and partners in order to survive, being seen as an outspoken advocate on behalf of one's client group can be regarded as too risky, despite the justice of the cause. Some organizations may not want to have their name in the media when their next funding submission comes up for approval. In effect, advocacy organizations have been effectively marginalized over the past 10 years.

- Human resource fatigue – People, both paid and volunteer, are stretching themselves to the limit to meet the new challenges and yet remain faithful to their mission and to the citizens and communities to whom they feel responsible. But how long can this go on?

The strength and resolve of those involved in voluntary activity are still strong. But the cracks that are appearing in the sector deserve serious attention before they become major fractures. There is a real and timely opportunity to modify funding strategies and reverse their unintended consequences.

# Chapter 1: Introduction

## A Vital Part of Canadian Society

Nonprofit and voluntary sector organizations are a vital part of every community. They provide a wide range of essential services and programs that touch virtually all aspects of our society – social justice, human rights, the environment, health, faith, arts and culture. They play a critical role in promoting active citizenship, supporting economic and community development, and advocating on behalf of diverse communities and causes – thereby establishing the connections among citizens, communities and governments that build social capital and sustain democracy.

Yet up until 10 years ago, there was little awareness about this sector, or even a vocabulary to describe it. While governments and communities have for many years relied upon nonprofit and voluntary sector groups to deliver a wide range of programs and community supports, these groups have often been taken for granted. Indeed, there continues to be little information about who they are, what they do, and what difference they make in the lives of Canadians.

Today, there is a growing consciousness of the nonprofit and voluntary sector. In June 2000, the federal government committed $94.6 million over five years to strengthen its relationship with the sector, to enhance the capacity of nonprofit and voluntary organizations, and improve regulations and legislation governing the sector. Under the auspices of the Voluntary Sector Initiative (VSI), the federal government is continuing to work with sector representatives to develop and implement needed reforms.

Similar initiatives have been launched at the provincial level, most notably in British Columbia and Newfoundland. Formal partnership between a province and the sector is most advanced in Quebec, where a Secretariat for Autonomous Community Action (SACA) has been created, directly attached to the Executive Council office. The Quebec community sector participates at government-convened socio-economic summits on the same basis as business and labour organizations. A system of grants has been set up to assist in the building of formal partnerships between Quebec government departments and nonprofit and voluntary organizations, including support for the delivery of a wide range of social services by nonprofits (White, 2001).

This new-found awareness can be traced back to at least two key trends. First, the call to "reinvent" government in Canada and elsewhere has fuelled an ongoing debate about the role of government in Canada and need for alternative forms of service delivery and partnership (see Osborne and Gaebler, 1993). Voluntary and nonprofit organizations are seen as central to a renewed public administration and a more "participatory" civic culture. At the same time, a decade of growing economic and social tensions – represented most graphically in the growing polarization between the rich and poor in Canada – has spurred concerns about social solidarity and the ties that bind us. A spotlight has been focused on the nonprofit and voluntary sector as the space where Canadian citizens come together to promote the common good, at a time when engaging in the community has never been more important.

While there seems to be an historic opportunity to expand the role of the sector in Canadian society, new demands and expectations on nonprofit and voluntary organizations have not been matched by commensurate fiscal or human resources. Through the 1990s, governments across Canada – the largest funder of the sector – significantly reduced public transfers and supports for nonprofit and voluntary organizations in efforts to balance the public books. This combination of increasing demands for service and reduced financial support has severely strained the capacity of nonprofit and voluntary organizations to pursue their mandates. Valued organizations have closed their doors, while others have cut back on their programs and activities. At the same time, many now fear that established boundaries between the nonprofit and voluntary sector and the state and the private market are breaking down. The unique contribution of the nonprofit and voluntary sector is being threatened by a funding environment in which nonprofit organizations are forced to compete in the funding marketplace, while funders such as governments exert greater control over the activities.

These concerns about the capacity of organizations to pursue and sustain their goals and activities within the context of a changing social, political and economic environment have prompted the current study. Specifically, this study is concerned with the impact of the changing funding practices on the operations of nonprofit and voluntary organizations and the place these organizations and the voluntary sector more broadly hold in society. Nowhere is the contradiction between rhetoric and reality more stark for nonprofit and voluntary organizations than in their pursuit of financial security. Organizations draw on many resources and relationships to define and carry out their missions, yet funding is a key dimension in their capacity to act. The energy and passion of volunteers, the reputation of the organizations within the community and among beneficiaries, the quality of management and governance structure all depend – at least in part – on the ability of organizations to secure the resources necessary to pursue their mission over the short and longer term.

Both the level and structure of funding and support available to the nonprofit and voluntary sector have been highlighted as key concerns. The shift away from core funding to project-driven, contract funding, the pursuit of commercial activity, and pressures from funders to adopt results-based management are three key trends signaling dramatic change in the sector (Rekart, 1993; McFarlane and Roach, 1999). This current study has been designed to probe the wider impacts of these changes for the beneficiaries and members of nonprofit voluntary organizations, the communities within which they operate, as well as for the organizations themselves. This study is also concerned with the consequences for the character and role of the nonprofit and voluntary sector and the relationship between the sector, the state, and the market.

## Our Project

Our primary objective is to study the impact of changing funding sources and mechanisms on the financial capacity and long-term sustainability of nonprofit and voluntary organizations in Canada. To this end, the goals of this study are the following:

- to document the range of sources and mechanisms of funding for nonprofit and voluntary organizations;
- to identify changing funding trends and practices across Canada over the past decade; and
- to document and analyze the impacts of new funding trends and practices on nonprofit and voluntary organizations from a wide range of sectors, particularly as they affect the capacity of organizations to pursue their missions and achieve sustainability.

To do so, we developed a four-pronged research strategy to explore the links between the funding trends and practices and the capacity of nonprofit voluntary organizations to pursue their missions. We gathered information through:

- a literature review of Canadian and international sources;
- key informant interviews and roundtable discussions with funders;
- 11 focus groups involving more than 100 organizations across the country;
- a detailed survey of nonprofit and voluntary organizations drawn from our focus group sample; and
- in-depth case studies.

While there are obvious limits to any research strategy, we believe that the combination of focus groups, expert interviews, and case studies, along with a written questionnaire providing extensive information on the financial capacity of these groups, produces a powerful portrait of a sector struggling with change. The mix of qualitative and quantitative approaches has allowed us not only to document, in detail, the changing funding trends and practices, but also to capture the complex and often contradictory impacts of these changes on nonprofit and voluntary organizations and their responses. A detailed description of our methodology is provided in Appendix A.

In Appendix B, we provide a brief overview of research on the voluntary and nonprofit sector in Canada and assemble a portrait of the sector from a variety of sources. However, a key point to be made is how little research has been done until recently on the sector and its capacity to meet mission. In an overview, McKechnie, Newton and Hall conclude that existing voluntary sector research is relatively new, atheoretical and focused on only a small number of topic areas (McKechnie et al., 2000: 25) Consequently, there are large gaps in our knowledge that demand attention. Some of the most obvious gaps in the literature "pertain to the funding of voluntary sector organizations and capacity issues" (Ibid).

The fact that the sector has not received much attention in Canada speaks to a rather unusual question for a project like this – how to label the subject of our study. Many labels are used to describe organizations that are positioned between the market and the state, including the third sector, civil society, social economy, non-governmental sector, and the commons. In Canada, the "voluntary sector" is used most often by governments. The use of "voluntary" highlights the importance of the contribution of volunteers to organizations and their communities. It portrays the sector in a positive and active light, while emphasizing the values that guide the sector. The term "nonprofit" refers to the prohibition against distributing profits to shareholders and it is also used by many. It is arguably the broadest term in use, capturing a diverse array of organizations, ranging from self-help networks to labour unions to orchestras.

The difficulty in choosing just one label is that many organizations that one might consider to be a part of the sector do not always identify with that specific label. The label "voluntary" is a case in point. Many voluntary groups rely extensively on paid staff and are not comfortable with a label that exclusively focuses on the voluntary dimension of their work. Others believe that the term "nonprofit" defines the sector by what it is not – in this case, profit distributing. After reviewing these debates, we have elected to use the term "nonprofit and voluntary" to describe organizations positioned between the market and the state. This term highlights two essential features of such organizations. As well, it is our hope that a broader range of organizations will be comfortable with this label than would be the case if we selected a single descriptor.

Because of the diversity of voluntary and nonprofit organizations within the sector, we had to create a specific focus for the purposes of this study. We concentrated on what have been called "public benefit organizations" that exist primarily to serve others and contribute to the general welfare (Salamon, 1995). This approach excluded member-serving organizations, such as professional groups, consumer groups, unions and cooperatives that are primarily organized to pursue the interests of their members and are funded through membership fees. Religious organizations were also excluded from this study. Organizations such as the United Way and public and private philanthropic foundations were consulted as funders, rather than as members of the nonprofit and voluntary sector.

Hospitals and universities were also excluded from our study on the basis that they are largely controlled by governments. They are also by far the largest nonprofit and voluntary sector organizations in the sector, certainly in terms of funding. For example, 80% of charities reported revenues under $250,000 in 1995, while only 7% of them – including hospitals and universities – reported revenues of over $1 million (Dreessen, 2000), so the very size of these nonprofit and voluntary organizations would have skewed the analysis of funding trends and practices. Certainly, the experiences of hospitals and universities struggling with the changing funding environment are quite different from those of smaller, community-based organizations.

The nonprofit and voluntary sector organizations that contributed their views to this study tended to be incorporated, including those with and without charitable status. They had an institutional presence, usually locally or regionally, but in some cases nationally. Thus, our study does not capture the experiences of wholly "voluntary" groups. Lastly, the areas of activity in which these organizations pursue the public good can be categorized under the following general headings: social services, community benefit, environment, arts and culture, health, ethnocultural activities, and recreation and sport.

This report is organized into three main sections. Part I includes this introduction and a discussion of key definitions and concepts. In Part II, we describe Canada's new funding regime and analyze the effects of changing funding trends and practices on the operations of nonprofit and voluntary organizations. We present our findings regarding the financial capacity of organizations struggling with change, and what organizations are doing to cope with these changes and capitalize on new opportunities. In Part III, we present our conclusions.

## Questions of Value

The issue of funding provides a key optic or lens with which to assess how we as a society organize to meet collective needs and accommodate the expression of often competing social, economic and political interests. Funding really does matter, as the title of this report asserts.[1] The funding of nonprofit and voluntary sector groups raises important questions about the value we as a society place on citizenship, mutual support and democracy. Given the dearth of information about the character of the nonprofit and voluntary sector, how it works, and the nature of its links to other segments of Canadian society, we hope that this study can begin to fill in some of these gaps.

We know that many representatives of nonprofit and voluntary sector organizations who took the time and trouble to meet with us and provide information about their financial capacity are also hoping that this report will generate constructive discussion and ultimately, beneficial change. The sector is not looking for a free ride. For example, it does not expect – nor does it want to be – unaccountable to funders. On the contrary, it seeks recognition for its multiple accountabilities, not only to funders, but also its accountability to clients, to partners, to its volunteers, and to communities. The intention is not to resist all change in funding mechanisms. Many, if not most, of the organizations with whom we spoke in the focus groups have embraced change and have worked to become more effective in the delivery of their programs and services. As this study documents, the challenge is to achieve a balance between what all organizations need (whether voluntary or not) – that is, stable, reasonably predictable and adequate funding that covers the costs of operation – and what all funders need – assurances that money is being well spent on mutually agreed purposes by vibrant and relevant organizations.

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### Endnotes

[1] We have borrowed the title from an article by Diana Leat. See "Funding Matters" in *An Introduction to the Voluntary Sector*, J. Davis Smith, C. Rochester and R. Hedley, Eds. London and New York: Routledge, 1995.

## Chapter 2: Financial Capacity and Sources of Funding

The title of this study is "Funding Matters." On the surface, this would seem to be rather self-evident. Nonprofit and voluntary organizations need financial as well as human, intellectual and structural capital to carry out and sustain their activities. Organizations that command adequate resources – and adequate funding, in particular – are better able to pursue their goals. The concept of funding, however, is much larger than the number of dollars in the bank. Funding is also about the relationships between nonprofit and voluntary organizations and their funders, relationships that facilitate or constrain the capacity of individual organizations – and the nonprofit and voluntary sector more broadly – to achieve their objectives. Stated another way, it is not just about *how much* funding organizations receive, but about *how* organizations are funded that matters.

In this study, our goal is to explore funding relationships between the nonprofit and voluntary sector and its funders. Specifically, we are interested in the impact of changing sources and mechanisms of funding on the capacity of organizations to undertake their work over the long term. How are nonprofit and voluntary organizations functioning within a changing funding environment? Are the experiences common across the nonprofit and voluntary sector? What do the experiences of individual organizations tell us about the relationships between the nonprofit and voluntary sector and the public on the one hand, and governments on the other?

In this chapter, we set out the conceptual building blocks of our study. The first section defines the two key concepts that frame the project: the nonprofit and voluntary sector and financial capacity. In the second section, we look at funding sources and mechanisms, identifying costs and benefits of various funding arrangements that influence to a significant degree the financial capacity of nonprofit and voluntary organizations to effectively and efficiently pursue their goals.

## 2.1 Key Concepts

### What is the Nonprofit and Voluntary Sector?

Defining the nonprofit and voluntary sector is not a straightforward task. Most would agree that nonprofit and voluntary sector organizations are a vital part of any community. The sector has been described as "the third pillar of Canadian society and its economy" (Liberal Party of Canada, *Red Book II*, 1997). Organizations within the sector range from small community-based groups to large, national umbrella organizations, all enriching the lives of Canadians in various ways. Some provide services such as health, education, social services, and arts and culture, while others have an essentially representational role, working on issues specific to particular causes or groups. Some advance religious faith and practice; others raise funds and provide financial support to other voluntary organizations. Together, voluntary organizations play an essential role in promoting active citizenship and building bridges between communities and cultures, across regions, and between Canada and other countries. In short, "the voluntary sector is about Canadians engaged and involved in improving life in their communities and the world" (VSI – definition of the voluntary sector).

At the same time, there is little consensus about an actual definition for the sector. Indeed, there are competing opinions.[1] Labels rooted in specific academic disciplines and regularly used include not-for-profit, charitable, third sector, civil society and social economy. (See Febrarro, Hall and Parmegiani, 1999 for a detailed discussion of various labels and definitions of the sector.) They all attempt to describe – from their various perspectives – the "common space between the state and market" (Hall and Banting, 2000: 1).

This common space is understood to be different from public or state institutions on the one hand (though many parts are highly dependent on government support) and from private/ business/ market institutions on the other (though many parts are active participants in the market economy). Generally speaking, the nonprofit and voluntary sector is made up of organizations that exist primarily to serve others – both members and non-members – and the broader public interest. These groups are private, that is, they are institutionally separate from government. They are privately controlled but do not exist to earn a profit or distribute profits to members or other stakeholders. They rely to a significant degree on volunteers in conducting their activities and overseeing their affairs. And lastly, nonprofit and voluntary groups can be said to be guided by values that set them apart from market and state, namely philanthropy, altruism, charity, reciprocity and mutuality (Shields and Evans, 1998: 89).

The boundaries between the nonprofit and voluntary sector and the state and market are admittedly "fuzzy" – if not downright porous (see Phillips, 1994). Hospitals and universities are a case in point. These organizations are registered nonprofit institutions, yet their operations are almost wholly circumscribed by government. Cooperatives have many of the characteristics of voluntary and nonprofit organizations even though they distribute profits to members. Other organizations are actively pursuing commercial ventures – generating profits that are used to pursue the organizational mission, to be sure – but this raises critical questions about what distinction if any can be truly made with other for-profit commercial enterprises (Weisbrod, 1998).

The difficulty in defining the sector does not stop there. One feature of the nonprofit and voluntary sector that is not in dispute is its diversity. The breadth and variety of voluntary organizations within the sector also makes it difficult to study in the abstract. Various classification schemes have been proposed. The most common scheme developed by the Johns Hopkins Comparative Nonprofit Sector Project divides the nonprofit and voluntary sector into groups based on their primary area of activity. Other schemes have classified organizations according to their function (i.e., whether it is a service organization or an advocacy organization, for instance), according to their beneficiaries, and according to their primary source of revenues. In Canada, a critical distinction is made between nonprofit and voluntary groups that are registered charities and those that do not have the tax privileges accorded by this status.

### Description of the Voluntary Sector
### Voluntary Sector Initiative, May 2001

The voluntary sector is by its very nature, rich and diverse, defying precise definition. It is the core nature of the sector rather than its boundaries that matter for purposes of the Voluntary Sector Initiative. The name captures the essential spirit of the sector.

The voluntary sector comprises self-governing organizations that exist to serve a public benefit, generate social capital but do not distribute private profit to members, depend to a meaningful degree on volunteers, involve participation on a voluntary basis, and are independent or institutionally distinct from the formal structures of government and the profit sector.

Some are registered charities, some are incorporated non-profit organizations and others exist independent of these classifications. The diverse multitude of organizations range from small community-based groups to large, national umbrella organizations, all enriching the lives of Canadians in various ways. These contributions include: delivering services; advocating on behalf of community causes; encouraging self-help; facilitating international, community and economic development; advancing religious faith and practice; and raising funds and providing financial support to other voluntary organizations. In using the term "voluntary sector," it is recognized that many organizations rely on paid staff to carry out their work, although all depend on volunteers on their boards of directors for their governance.

The voluntary sector is about Canadians engaged and involved in improving life in their communities and the world.

Drawing distinctions between the nonprofit and voluntary sector, market and state – and within the sector itself – is not simply an academic exercise. Understanding the similarities and differences between these three pillars is key to understanding the functioning of modern society, that is, how we go about meeting individual and collective needs and aspirations – everything from home care to environmental preservation.[2] Indeed, a key question driving this study of funding in the nonprofit and voluntary sector is the degree to which the boundaries between market, state and the nonprofit and voluntary sector are becoming blurred as funding practices and mechanisms have changed. Does the erosion of these boundaries pose a threat to the unique contribution of the nonprofit and voluntary sector to Canadian life?

Such broad questions also underscore the importance of exploring the diversity of experience within the nonprofit and voluntary sector around the question of funding. What, if any, are the similarities and differences across the nonprofit and voluntary sector? Are the funding experiences of various nonprofit and voluntary organizations distinctive, or can a case be made that the current funding practices are drawing the sector together around a set of common concerns? From this perspective, defining the nonprofit and voluntary sector is thus not a question of identifying "who is in" and "who is out," but rather, defining the sector is important in order to articulate and understand its unique contribution to the quality of life in Canada and the challenges that nonprofit and voluntary organizations face in pursuing their missions. As the Joint Tables argue: "It is the core, not [the] edges, that matter for this endeavour" (Joint Tables, 1999: 16).

## What is Organizational Capacity?

The long-term objective of the Voluntary Sector Initiative (VSI), announced by the federal government and nonprofit and voluntary sector representatives in 2000, is "to strengthen the voluntary sector's capacity to meet the challenges of the future and to enhance the relationship between the sector and the federal government and their ability to serve Canadians." The VSI was established to resolve long-standing issues between the federal government and the voluntary sector, including modernizing regulatory mechanisms and standards, improving information on the sector, engaging the sector in policy development, promoting voluntarism, and establishing codes of best practice. Roughly one-quarter of the $94.6 million in federal funding over five years was set aside to enhance the capacity of voluntary sector organizations to undertake their work and fulfill the expectations of stakeholders.

The need to build capacity within the nonprofit and voluntary sector has been a central theme of the VSI, and directly ties the work to two earlier commissions: The Panel on Accountability and Governance in the Voluntary Sector (PAGVS), and the Government of Canada/ Voluntary Sector Joint Initiative. The first initiative was sponsored by the Voluntary Sector Roundtable, a group of 12 national nonprofit and voluntary organizations, and highlighted the needs of the nonprofit and voluntary sector struggling with increased social demands and the consequences for sector accountability and governance. In response to the Report of the PAGVS, the Joint Tables developed several recommendations to restructure state-sector relationships and strengthen the capacity of the nonprofit and voluntary sector in areas such as recruitment and retention, research and technology, and management. The Capacity Joint Table of the VSI continued with this work, focusing in particular on three areas: human resources, research and information sharing, and policy. The Working Group on Financing – a subgroup of the Capacity Joint Table, comprised of representatives from the nonprofit and voluntary sector alone – was charged with the task of exploring issues related to financial capacity within the sector.

Throughout this body of work, "capacity" has been loosely defined as the ability of organizations to undertake their work, "to achieve their missions, bring their visions to life, and fulfill their roles" influencing public policy, offering Canadians meaningful ways to donate their time and energy, and delivering programs, services and activities (Joint Tables, 1999: 30). This definition focuses on the ability – or inability – of organizations to develop and deploy resources in the pursuit of organizational goals, in the present and over the long term. Similarly, the United Nations Development Program (UNDP) defines capacity as "the ability of individuals and organizations or organizational units to perform function effectively, efficiently and sustainably" (UNDP, 1998: 5). Norway's national development agency develops the idea of capacity as agency, specifically defining capacity as "the power or energy which determines performance and sustainability" (NORAD, 1999: 5). Following from this, "capable" or "sustainable" organizations are those that:

- are able to secure external inputs and necessary support;
- are able to provide, efficiently and effectively, a continuing stream of activities and outputs;
- are valued by stakeholders including members, clients/ beneficiaries, funders/ donors, communities; and
- for as long as the institution is needed (NORAD, 1999: 6-7).

This last point is important. The goal of nonprofit and voluntary organizations is to undertake relevant activities in the interests of their members or beneficiaries and the general public. Organizations that drift away from their mission or find themselves unable to adapt to the changing social, economic and political environment risk eroding their base of legitimacy and credibility. Enhancing or securing organizational capacity is only important – as this definition emphasizes – to the extent that it assists organizations in achieving their goals and aspirations.

Various authors identify internal and external dimensions of capacity. For example, the UNDP proposes five different "external" or system-level dimensions that influence organizational capacity (i.e., policy dimension; legal/regulatory dimension; management dimension; resource dimension; and process dimension) and seven "internal" dimensions of capacity (i.e., mission and strategy; culture, structure and competencies; processes; human resources; financial resources; information resources; and infrastructure) (UNDP, 1988: cited in Hall, 2002: 2-3). Similarly, the skills and capacities of individual members – for example, their skill level, professional networks, values and attitudes – contribute to the overall functioning of the organization.[3]

The nonprofit and voluntary sector organizations surveyed for this current project also identified a list of characteristics that they believed were critical to a successful organization. For them, healthy and successful organizations are those that:

- are able to adapt to work in the public interest;
- are not profit-distributing;
- are mission driven;
- integrate and value volunteer labour and contributions;
- have dynamic, inclusive leadership;
- are socially inclusive and work to bring the marginalized to the centre of community life;
- exercise autonomy of thought and action in pursuit of public good;
- are accountable to their different constituencies: beneficiaries/ clients; members, funders and other stakeholders;
- plan for the future of the organization; and

- are able adapt to the changing realities of the day in a proactive way.

This definition, like the one proposed by the UNDP, points to the myriad of relationships and resources that enable and sustain organizations, both those in the nonprofit and voluntary sector and elsewhere. Yet one can be forgiven for thinking of capacity as merely a shopping list of attributes – if an organization has the right staff, a relatively stable funder and dedicated members, it will be successful over time. The point that participants in our focus groups came back to time and again was the importance of relationships – both "internal" and "external" – among the organization, the people engaged in and touched by its activities, and the systems or structures that shape their actions. Nowhere is this more evident than in the study of funding. Capacity and financial capacity in particular cannot simply be measured by the number of dollars in the bank or the skill level of staff; rather it is defined through the complex relationships between nonprofit and voluntary organizations and their stakeholders, and the institutions that structure these relationships.

## What is Financial Capacity?

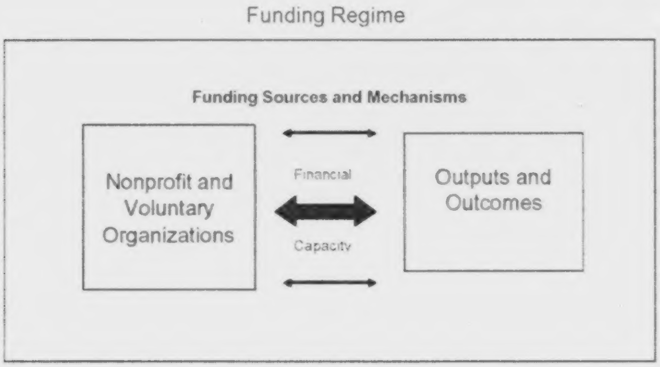
Financial capacity, like other types of organizational capacity, represents available organizational resources and relationships – both internal and external – that enable individual organizations to pursue their missions and fulfill their roles. And like other forms of organizational capacity, financial capacity is complex. It is defined, on the one hand, by the ability to generate and administer funds, and on the other hand, by the instruments and mechanisms that structure the relationship between the organization and funder. As this study amply illustrates, the mix of types and sources of funding is as important – if not more so in some cases – as the level of funding to an organization's capacity to pursue its work effectively, efficiently and sustainably.

The current focus on the impact of the various funding sources and mechanisms is important because it draws attention not only to the internal dynamics of nonprofit and voluntary organizations, but also to the complexities of their relationships with stakeholders, most notably, with funders. No funding source or mechanism is "unambiguous" (Weisbrod, 1998). The costs and benefits of each source of funding and each funding mechanism are key determinants of organizational behaviour. Each funding source and funding mechanism imposes opportunities and constraints that affect the capacity of organizations to pursue and achieve their goals. Indeed, funding sources and mechanisms can and do influence all aspects of an organization's activities, structures and decision-making.[4]

The focus on funding sources and mechanisms also illuminates broader principles, norms, rules and decision-making procedures that govern the relationship between nonprofit and voluntary organizations and their funders. Other scholars have used the concept of "regime" to describe the collective rules, values and sanctioned expectations that structure the day-to-day actions of nonprofit organizations and governments, and we believe that is useful in our context as well.[5] While all actors do not operate on the same principles or seek the same objectives, overarching assumptions and expectations do exist that influence the interactions of these same actors. They define the funding environment within which nonprofit and voluntary organizations and their funders operate, and they are reflected in institutional arrangements such as the funding mechanisms that structure their relationships.

The relationship between nonprofit and voluntary organizations, their financial capacity, funding sources and mechanisms, and the broader funding regime are depicted in Figure 2.1. In this conceptual model, the funding regime is depicted as the outer box, that is, the context which frames the actions of organizations. It is not the only external influence, but it is a critical one. Regime values and expectations in turn are embedded in the various funding sources and mechanisms available to nonprofit and voluntary organizations. And funding sources and mechanisms are a key influence on the capacity of nonprofit and voluntary organizations to generate and deploy financial resources in the pursuit of mission – the intended outcomes of organizational action.

Figure 2.1: Conceptual Model


Funding Regime
Funding Sources and Mechanisms
Nonprofit and Voluntary Organizations
Financial
Capacity
Outputs and Outcomes

That is not to say that a particular source or type of funding always produces the same impacts for recipients, or that these funding structures are the dominant influence on nonprofit and voluntary organizations. Rather, certain types and sources of funding tend to raise certain issues. These issues are related to the types and sources of funding but the issues, and the organization's responses to them, are always shaped and constrained by the mission and values of the organization itself.[6] In other words, nonprofit and voluntary organizations and their stakeholders are active in defining funding structures and practices at the organizational level and at the broader regime level. Indeed, the ability of nonprofit and voluntary organizations to influence their funding relationships as reflected in funding arrangements is a measure of their financial capacity and long-term financial health.

## 2.2 Funding Sources and Mechanisms

There is a popular notion that funding for the nonprofit and voluntary sector comes from voluntary sources, that is, from private giving. In fact, the nonprofit and voluntary sector derives income from a number of sources (i.e., from individuals, governments, foundations, United Ways/ Centraides, religious organizations, corporations, and the private market) and through a number of mechanisms (i.e., donations, gaming, sales of goods and services, grants, contracts, sponsorships, and investments).[7] For the sector as a whole in Canada, government is the largest funder, followed by earned income and private giving/ fundraising.

Within the nonprofit and voluntary sector, reliance on various income sources and their related funding mechanisms varies, often reflecting the unique histories of the various groups. The origin of nonprofit and voluntary organizations within particular communities, the nature of the service, the presence of other for-profit or public service providers, and the philosophy and values of members all influence the particular mix of sources and types of funding. Each source represents its own opportunities and challenges for nonprofit and voluntary groups. Balancing the costs and benefits of these various sources is both complex and demanding. Below, we look at different sources of nonprofit and voluntary sector income in order to better understand the funding dynamics within individual organizations and the constraints and opportunities that different sources and types of funding represent.

### Government Funding

While nonprofit and voluntary organizations rely on a host of income sources, by far the most important historically has been government. Governments over many years have provided important support – both financial and in-kind – to nonprofit and voluntary organizations. Governments have supported service organizations broadly defined – including theatres, galleries, sports clubs, and ethnocultural associations – as well as a host of advocacy and other public interest organizations. The funding relationship between Canadian governments and nonprofit and voluntary organizations reaches back to the early 1900s, when small grants were given to charitable organizations to serve vulnerable groups through orphanages, schools and group homes.

The relationship expanded considerably after the Second World War. At the federal level, for instance, the Citizenship Training Program began to fund nonprofit and voluntary organizations with the explicit intent of strengthening national loyalty among an increasingly diverse population (Joint Tables, 1999). New federal-provincial funding agreements through the 1960s and early 1970s – especially the Canada Assistance Plan – consolidated government support for nonprofit service providers. The Canada Council and other provincial arts funding bodies were set up at that time. At the same time, the federal government introduced indirect financial assistance to registered charities through the tax system and direct operational funding to organizations engaged in promoting various aspects of Canadian identity through new Secretary of State programs. Predictably, as government funding became available, the number of nonprofit and voluntary organizations grew, including the number of advocacy organizations – a unique feature of Canadian support for the nonprofit and voluntary sector.[8] Indeed, far from crowding out voluntary contributions and activity, the nonprofit and voluntary sector has grown up alongside government over the past 50 years – here in Canada and elsewhere (Gidron et al., 1992).

Governments provide both direct and indirect financial assistance to nonprofit and voluntary organizations. In this study, we will be focusing on direct forms of government support, but it is important to keep in mind the significance of indirect support as well. In this regard, governments provide tax assistance to charitable organizations; in 1997-98 for example, the federal government provided $1.5 billion in the form of tax assistance (the GST rebate and the charity tax credit). Indirect support delivered through the tax system has increased over the past decade as the federal government has amended regulations to encourage charitable giving. As well, governments also provide large in-kind contributions to many organizations, including contributions of meeting space, equipment and facilities, training opportunities, and personnel exchanges. Consideration is also given to nonprofit and voluntary organizations in the form of differential pricing for conferences or other training opportunities.

Direct government funding accounts for roughly 60% of nonprofit and voluntary sector revenues, the lion's share coming from provincial and territorial governments (TBS, 2000). There is a variety of funding vehicles used to finance the nonprofit and voluntary sector, but most fall into one of three main types[9]:

- **Grants** are transfer payments to an individual or organization which are not subject to being accounted for or audited, but for which eligibility and entitlement may be verified or for which the recipient may need to meet certain pre-conditions (Treasury Board Accounting Standard 3.2 – Transfer Payments). Grant programs provide organizational support and stability, and they enhance capacity building, often for organizations that might not otherwise exist or have alternative sources of private funding. Some government departments directly operate grant programs. In many instances, however, governments set up independent granting bodies such as the Canada Council of the Arts or the Social Sciences and Humanities Research Council. Under the direction of a board of directors, these agencies develop and oversee funding competitions. Governments establish the annual allocation and typically appoint one or more members of the board, including the chair.

- **Contributions** are conditional transfer payments to an individual or organization for a specified purpose pursuant to a contribution agreement that is subject to being accounted for and audited (Treasury Board Accounting Standard 3.2 – Transfer Payments). Increasingly, funding for the nonprofit and voluntary sector is taking the form of contributions; for instance, purchase of service agreements are contribution agreements designed to fund specified services, often over a number of years. Most project funding takes this form. Governments announce competitions for funding, where organizations submit proposals to deliver requested goods or services, or seek out specific providers. Unlike contracts tendered under an open bidding system, competitions for contribution funding do not limit consideration to the lowest bidders. Requests for Proposals (RFPs) often establish detailed eligibility criteria, often setting out preferences for nonprofit, voluntary sector providers.

- **Contracts** are agreements between a contracting authority and a person or firm to provide a good, perform a service, construct a work, or to lease real property for appropriate consideration (Treasury Board Contracting Policy). The term "contract" is reserved for contracting for goods and services where there is competition between potential contractors – both nonprofit and for-profit organizations – designed to promote value for money. Work specifications are defined in terms of clear outputs or performance requirements that will encourage and accommodate the use of the competitive process as required under the *North American Free Trade Agreement*, the *World Trade Organization - Agreement on Government Procurement*, and the *Agreement on Internal Trade*. All contract work is subject to government audit. Market principles are brought to bear on the delivery of services in the belief that greater efficiency and consumer choice will result.

While government funding is invariably awarded through competitive processes, the key distinction between grants and contributions and contracts is the degree of control over the process and product (see Joint Tables, "Supplementary Paper C: Advantages and Disadvantages of Alternative Funding Methods," 1999). Grants such as those awarded by arts granting councils are an "unrestricted" source of funding. That is, funds are awarded for specified purposes, but the recipient is *not* subject to monitoring or audit. Project reports are often requested, but are not required as a condition of funding. These funds can be applied to the operation of the organization or a particular program as the recipient sees fit in pursuit of their mission. Grants afford the greatest organizational autonomy to recipients. Organizations are held to account by their members and clients/ beneficiaries for the appropriate and effective use of funds. Indeed, the desire to receive future funding acts as a powerful accountability mechanism as well. Governments use grant vehicles to advance public policy objectives, as well as to foster organizational capacity and innovation.

By contrast, both contributions and contracts tendered through an open bidding system extend much greater control over the process and content of solicited work. Support is typically provided for discrete projects or programs rather than to the organization. As a result, contributions and commercial contracts are typically organized around the priority of funders as opposed to the priorities or mission of applicants. They can be highly uncertain funding arrangements from the perspective of nonprofit and voluntary organizations. Uncertainty is built into the process via the emphasis on competition for the project or program and flexibility for the purchaser. As well, the very structure of the contract under both funding mechanisms can create uncertainty as eligible costs are narrowly prescribed, excluding in many instances, core administrative and organizational costs that are necessary to sustain the entire organization. Fixed price contracts, in particular, can be very problematic for the contracting group if they do not provide for the possibility of rising costs.

From recipient organizations, contributions and commercial contracts also tend to be more costly in terms of the time and resources devoted to acquiring and managing the contracts, in comparison to grants and many other funding sources. Moreover, these funding arrangements are designed to ensure stricter accountability and monitoring through results-based management measures. The imposition of external monitoring and evaluation systems can be very onerous for nonprofit and voluntary organizations, particularly the smaller groups, absorbing huge amounts of time and resources, often from other critical organizational activities. And lastly, there are concerns about the impact of government contributions and open bidding contracts on organizational autonomy and independence, as organizations become entangled in the dense web of government rules and regulations. This is particularly the case for organizations in receipt of contribution funding.

It is not unusual for governments to roll over contribution agreements, particularly with organizations where a long-term relationship exists or there is no other obvious service provider. Indeed, in the social service field, this is a common arrangement. In a study of the Ministry of Community and Social Services in Ontario, Panet and Trebilcock found that social services were provided almost exclusively through nonprofit agencies under purchase of service agreements (Panet and Trebilcock, 1998). These were not usually competitively tendered because of the difficulties in monitoring performance and the advantages of working with well-established networks of service providers. Direct offers were more common than competitive tenders, and relationships with commercial providers were relatively uncommon at the time. That is not to say that long-term purchase of service agreements function like grants or other forms of core funding, where monies are awarded to organizations and are subject to comparatively little oversight. While organizations in these funding arrangements with government come to expect contract renewal each year to service their clients, the complexities of contract renewal cannot be underestimated nor the pressures related to this form of government funding.

To summarize, there is a wide variety of direct funding relationships between government and nonprofit and voluntary organizations, ranging from core grants to longer-term purchase of service contracts, to more contingent and competitive contribution agreements contracts, to commercial contracts. Predictably, the type of funding mechanism varies according to the jurisdiction, the political orientation of contracting governments, community demand for service, and the history of the relationship between governments and specific nonprofit and voluntary organizations. With the exception of grants, government funding tends to be complicated, imposes high direct and indirect costs, tends to be of short duration, and potentially threatens the autonomy of nonprofit and voluntary organizations, especially for those that operate as service delivery agents for government.[10] Yet for many nonprofit and voluntary organizations, it is often the only source of potentially stable funding available, releasing organizations from the annual grind of fundraising, especially for groups that may not have access to other sources of funds such as private donations or earned income or those engaged in "essential" public service delivery. Government money is hard money to turn down.

**Earned Income**

The nonprofit and voluntary sector relies on a host of earned income sources to support and sustain their activities. For example, arts and cultural groups, as well as recreational organizations, are dependent on administration and registration fees and other charges to generate income. Membership fees are certainly common across a wide range of nonprofit and voluntary organizations; others such as sport leagues or clubs charge fees for mission-related services that partially or wholly cover the cost of the service. Some nonprofit and voluntary groups have launched mission-related and/or ancillary businesses; various activities include the sale of program-related products and services (i.e., Employee Assistance Programs; museum shops), the use of staff or client resources (i.e., when staff serve "paying" as well as "mission-based" clients), and the leasing and/or rental of hard property, licensing and soft property assets (e.g., mailing lists) (Skloot, 1987, cited in Dart and Zimmerman, 1998: 9).[11] Investment income, sponsorships, and joint business ventures with for-profit or publicly owned companies are other sources of potential earned income.[12]

The dependence on earned income sources varies across the nonprofit and voluntary sector, yet interest is widespread in what has been called "social entrepreneurism" Nonprofit and voluntary organizations are increasingly turning to the market – when feasible – to generate income for mission-related activities and to provide social benefits through employment (Weisbrod, 1998; Ryan, 1998; Froelich 1999; Ryan, 1999). Social entrepreneurism is seen as a way to diversify income sources, to cover rising costs, and meet new demands for service, as well as improve organizational performance and impact through the use of private sector methods, tools and approaches. The idea of social entrepreneurism, according to Tim Draimin, is to "improve the brain and muscle of the nonprofit without damaging the heart" (Draimin, 2000).

Here in Canada, anecdotal evidence suggests that Canadian voluntary organizations are also pursuing earned income opportunities like their American counterparts.[13] A number of participants in our focus groups discussed successful ventures that were generating "unrestricted" dollars for the organization. In one case, for example, a social service agency was able to purchase a large parcel of land in the downtown core on favourable terms and they built a building that accommodated their agency and other tenants as well. Rental income provided an important stream of income that subsidized the costs of maintaining the building and other mission-related activities. Moreover, the value of the investment has appreciated over time and they are now exploring the possibility of developing the site further, again with an eye to expanding their operations. For these groups, earned income – specifically, income from commercial activity – represents a source of income that is "less restrictive" and potentially more stable than other sources of income, including private donations and project funding.

Earned income is not an option for everyone, however. The ability to generate income from fees or charges depends upon having something to sell at a price that potential buyers can afford. In the nonprofit and voluntary sector, this typically includes memberships, information and advice, research, training, counselling, the use of facilities, administrative support, and so on. In order to do so, it is necessary to have specialized knowledge and the capital to mount such an initiative – a considerable barrier for many, if not most, nonprofit and voluntary organizations. The demands of operating a successful commercial enterprise are arguably even more complex, both financially and organizationally, while the returns are not guaranteed and the financial risks are high (Zimmerman and Dart, 1998). Needless to say, not all organizations are in the position to generate earned income.

The ability to earn income is also constrained by the fact that price is a central concern for many nonprofit and voluntary organizations. Many groups exist precisely because their clientele cannot afford to pay for a specific good or service. A third party may well be involved in paying for part or all of a selected service on the behalf of clients. For many nonprofit and voluntary groups, however, charging any fee at all serves to undermine the mission of their organizations. This isn't the case for all nonprofit and voluntary groups. Earned income has always been central to financial sustainability for most arts organizations and recreational groups. And for other nonprofit and voluntary sector groups, it can be a desirable way to diversify their funding base and increase their latitude to pursue desirable projects, particularly in comparison to funds derived from government sources (Weisbrod, 1998). Operating a parking lot, for example, can produce a stream of unrestricted funds that can assist with mission-related activities as noted above. Successful businesses also enable an organization to maintain higher staff levels – staff that are available to assist with other mission-related activities as well. Overall, there is a greater emphasis on measuring the costs and benefits associated with the organizations' activities and monitoring outcomes such as client satisfaction, the impact of which many voluntary organizations would agree has been very positive.[14]

At the same time, earned income can reduce the ability of organizations to pursue their mission because organizations must always focus on what is likely to sell. Activities or client groups that do not produce fee income may be neglected or dropped altogether. Energies devoted to operating earned income ventures, particularly for-profit business ventures, can divert energies and resources from other core activities. These stresses can create tremendous tension within nonprofit and voluntary organizations, particularly among staff that are responsible for income generation and those in the traditional service areas.[15] Ultimately, earned income in its many forms facilitates commercialization – a powerful force that can pull organizations away from their original missions – places enormous stress on the culture of the nonprofit and voluntary organization, and works against the ethic of the nonprofit and voluntary sector.

Investment income is another kind of earned income for a small number of nonprofit and voluntary organizations. On the whole, investment income tends to make up a fairly small proportion of total income. While some organizations are involved in subletting office space, relatively few derive any significant income from market investments, an exception here being charitable foundations set up for the express purpose of fundraising for charities.[16] Certainly, the costs of generating and maintaining investment income are fairly high in terms of needed expertise. As well, there are concerns with regard to ethical investing. Large reserves can also raise questions about the organization's pursuit of its mission and deter other potential donors. This being said, however, many organizations are trying to establish endowments in order to provide greater financial flexibility and stability.

### Private Giving/ Fundraising

There are many different sources of private giving, which is the third major source of funding for the sector. Individual giving is extensive in some sectors of the nonprofit and voluntary sector. Similarly, corporate donations, which we discuss in greater detail below, as well as contributions from unions, other voluntary organizations or associations, and local businesses are all sources of private funds. Private foundations and community-based fundraising organizations such as the United Way/ Centraide can also be grouped under this category, although in many instances, these funders have more in common with government funders than they do with other private donors.

One of the most prevalent myths about the nonprofit and voluntary sector is that the organizations engaged in the sector are largely sustained through the donations of concerned individuals. This is certainly true for religious organizations, for example, and for many smaller community-based service or advocacy groups. Yet most nonprofit and voluntary organizations pursue other sources of funding, because private giving tends to be a relatively small source of income and is inherently unstable. The significant revenue fluctuations from year to year make it very difficult for even established organizations to staff and deliver programs, particularly over the long term. While fundraising efforts are increasingly sophisticated and some groups are attempting to secure longer-term funding commitments through planned giving and endowments, for most nonprofit and voluntary organizations, private giving does not provide a steady source of income.

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### "Poor children's club runs out of money"

**Column by Randall Denley, *The Ottawa Citizen,* August 02, 2002: F2**

The Boys and Girls Club has been an institution in Ottawa since 1923. Perhaps because it has been around for so long, we tend to take the good work it does for underprivileged children and teens for granted. Now the club has financial troubles and Ottawans will have to decide how much they value this service.

The club operates three clubhouses, three drop-in centres and a summer camp near Eganville. About 5,000 kids a year participate and are offered gyms, swimming pools, sports leagues, computer rooms and homework rooms. The successful Police Youth Centre recently became part of the Boys and Girls Club operation and the Brian Smith Foundation formed an alliance to support the club's summer camp.

The problem is that the club is too reliant on individual and corporate donations, and those donations haven't been coming through at the expected rate this year. As a result, the club has been forced to reduce service at its clubhouses. Hours of operation have been reduced from 12 to 15 hours a day to eight and the clubhouses are closed altogether some days. This is a first step in dealing with an estimated deficit of $250,000 to $300,000 this year.

Reducing hours alone won't balance the approximately $3-million budget, executive director Claude Turgeon says. If more money isn't available, "we'll be looking at significant reductions come fall."

The fall-off in the local high-tech industry has reduced the number of donors, Turgeon says. The club's bingo revenues have also been cut because fewer people are playing bingo since the city's no-smoking rules were instituted.

Donations declined sharply last year. In 2000, the club took in $636,000 and last year the amount was cut to $456,000. This year, Turgeon hoped to reverse that by investing $100,000 in direct mail and telemarketing. That campaign hasn't produced the desired results and donations are expected to fall about $300,000 short of the $740,000 target. Expenses at the club are also up about $100,000 because staff got a raise to bring them in line with other youth organizations and the number of staff for some programs has been increased.

Clearly, the Boys and Girls Club is going to have to do less or find more money. But who should pay?

The club's one big secure funder is the United Way. That agency features the Boys and Girls Club prominently in its fundraising campaign, likely creating the impression that the United Way has the club covered. In fact, the $780,000 United Way donation only provides about 25 per cent of the club's budget, down from about 60 per cent 10 years ago.

There is little hope of more money for the club, United Way vice-president Eileen Dooley says. The Boys and Girls Club is the single largest recipient of money from the United Way, although the agency's contribution has remained relatively static while the overall United Way take has increased by 25 per cent in three years. The United Way has used the new money to fund additional agencies.

Turgeon plans to approach city council this fall, to see if it can help. The club receives $140,000 a year to offset the cost of its Britannia clubhouse, because the city doesn't offer a similar service in the area.

City social services boss Dick Stewart says the city can't afford to do more for the club in the short term. To do so would mean taking money away from other organizations and "that's hardly going to happen."

Officials at both the United Way and the city are full of praise for the work that the Boys and Girls Club does. The club's work is "unassailable," Stewart says, and leads to less crime, less vandalism, better citizens and stronger families.

Turgeon says it just isn't feasible to run an organization like the Boys and Girls Club strictly on the hope that hundreds of thousands of dollars in donations will miraculously appear every year. Clubs in other cities typically receive substantial sustaining grants, Turgeon says, and that's what he thinks we need here. It seems that's not going to happen any time soon. If people in Ottawa want the Boys and Girls Club to keep its high level of service to children, it's up to individuals to give.

To donate, contact Jocelyn Umengan at 232-0925 ext. 24 (jumengan@boysandgirlsclubottawa.org) or mail your cheque to: The Boys and Girls Club of Ottawa, 412 Nepean, Ottawa, K1R 5G7.

"We can't save the whole world. We only do what we can," Turgeon says. With your help, they will be able to do more.

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Private dollars generated through fundraising efforts can be very desirable in that they are unrestricted. Recipient organizations are usually able to use these funds as they see fit in the pursuit of their mission. Yet ongoing fundraising is very expensive and labour intensive, particularly when compared to the amount raised. While nonprofit and voluntary groups build relationships with members and their communities through fundraising, it is not uncommon for groups to fail to cover their costs. The most common methods – such as raffle tickets or door-to-door solicitations, for instance – are not the ones that produce the highest yields, despite the extensive use of volunteers. Indeed, nonprofit and voluntary groups report increasing difficulty in recruiting volunteers for fundraising purposes. Groups also report higher levels of donor fatigue. A fundraising activity that is successful one year can fail the next, irrespective of the amount of effort that went into the planning. The *National Survey of Giving, Volunteering and Participating* (NSGVP) reveals that Canadians are making fewer donations: between 1997 and 2000, the average number of donations fell from 4.0 to 3.7 donations. Moreover, while a majority of Canadians report making donations to nonprofit and charitable groups (91% in 2000), most donations are very small. The top one-quarter of donors accounted for 82% of total donations. (Not surprisingly, the same group of donors also accounted for the majority of hours donated to nonprofit and voluntary organizations).[17]

In response to an increasingly competitive funding environment, larger nonprofit and voluntary organizations such as universities and hospitals have established development offices, staffed by professional fundraisers, to coordinate their fundraising activities. These organizations, with considerable sums of money at their disposal, are able to mount expensive fundraising campaigns, including direct mail, in contrast to the large majority of nonprofit and voluntary groups that struggle to sustain funding levels. Increasingly, the size of the nonprofit and voluntary organization is determining the ability of groups to pursue and sustain private giving.

Thus, private giving/ fundraising is volatile, highly competitive and expensive. Even its standing as a source of unrestricted dollars is being challenged, as donors – both individual and corporate – increasingly target their support not just to particular organizations, but to specific projects or programs within voluntary groups. The pursuit of wealthy donors marks another decisive shift in fundraising. Packages are tailored to individual donors, setting funding goals and the type of donor recognition that will be accorded. In response to this new trend, some community foundations and philanthropic intermediaries like United Way/Centraide have also begun to emphasize more choice by giving donors the option of designating their donations to particular organizations or program areas.

No one would argue that private individuals should not be able to donate to groups and causes as they see fit. But the growing trend to donor choice does raise issues for nonprofit and voluntary organizations that provide valuable, but unpopular, services for society. It can also cause problems if organizations try to turn themselves inside-out to attract targeted dollars. In the process, important nonprofit and voluntary sector activities may be sidelined as the organization pursues programs for which funding is available.

Charitable gaming has been a source of unrestricted private dollars for many smaller organizations in the sector for many years. While some organizations still run bingos, the stakes have been significantly altered by the arrival of another player in the form of government-sponsored gambling. Overall, this source of revenue has diminished among nonprofit and voluntary sector groups. Community groups still sell raffle tickets; indeed, many recreation groups sell blocks of raffle tickets to members with their membership fees – an obligatory donation, so to speak. But the number and type of charity casinos and the like have decreased. Increasingly, only larger charitable organizations have the capacity to mount lotteries, for example, that can successfully compete with provincially sponsored gambling vehicles and venues. Organizations that have the resources can commission professional consultants to organize and run these fundraising events (i.e., hospital lotteries and clothing drives), retaining only a fraction of the profits to support the organization. Thus, as with other types of fundraising, a divide is opening up between large and small nonprofit and voluntary sector groups.

### Gaming Grants

Until recently, charitable gaming such as bingos or raffles has been an important and efficient, although admittedly labour intensive, means of raising "unrestricted" dollars for many organizations. Today, revenue from charitable gaming is being overtaken – and in many instances, being displaced – by revenues from provincially sponsored gambling in the form of gaming grants. The exponential growth of provincially sponsored gambling such as lotteries, casinos, video lottery terminals and slot machines has transformed nonprofit and voluntary sector funding in many provinces and raised critical questions about the sector's – and government's – reliance on gambling as a means of financing community services and programs.

In 1969, the federal government introduced changes to the *Criminal Code* that opened the door to provincially sponsored gambling. The Quebec government was the first to launch a provincial lottery to raise funds to mount the 1976 Montreal Olympics. Other provinces followed suit, introducing lotteries and sweepstakes on the pretext for generating revenues for selected charitable and nonprofit organizations and activities. Twenty years later, the charitable gambling industry in Canada expanded again when the first slot machines were introduced at Canada's first permanent casino in Manitoba in 1989. One year later, the first Video Lottery Terminal (VLT) was introduced in New Brunswick, representing the inauguration of non-casino gambling. By 2001, there were over 100,000 places to make a bet in Canada (Azmier, 2001).

The massive growth in provincial revenues from gambling has been startling. "Between 1992 and 1998, annual non-charity gambling revenues nearly tripled, growing from $2.7 billion in 1992 to $7.4 billion in 1998" (Azmier and Roach, 2000). In the 1999 fiscal year, the net profit in government-led gambling was $5.5 billion, with charity-run gaming generating an additional $712 million, equalling a total net profit of $6.3 billion across Canada. This has led to gambling contributing, on average, 3.41% of all provincial revenue sources, with Nova Scotia, Saskatchewan, Alberta and Newfoundland benefiting the most (Azmier and Roach, 2000).

One of the stated reasons that governments have moved into gambling is to raise funds for nonprofit and voluntary sector programs and services. Governments have set aside a portion of gambling profits in order to support voluntary activities, often through public foundations such as the Trillium Foundation in Ontario or the Wild Rose Foundation in Alberta. Nonprofit and voluntary organizations then apply for "gaming grants" in a process that in many respects mirrors the process for applying for government funding. Over the past decade, gaming grants have become an increasingly important source of revenue for nonprofit and voluntary groups. In a study of the four western provinces by the Canada West Foundation, over one-quarter of the nonprofit organizations surveyed reported that gaming grants were their top funding source, while 50% said it was one of their top three sources. One-fifth of organizations sampled said they received over half of their annual revenues from gaming grants (Berdahl, 1999).

The extent of nonprofit and voluntary sector dependence on gambling revenues is therefore very large in some provinces. Indeed, it is arguable whether the public is fully aware of the size of gambling revenues and their role in funding the nonprofit and voluntary sector. There are a host of issues related to gaming grants and other charitable gaming activities that bear mention. Gambling has certainly gained popularity among Canadians as a source of entertainment, a source of community economic development, and a way to potentially alleviate tax pressures. Yet the ethics of gambling is a concern for many. Relying on gambling revenues – whether they are government sponsored or not – facilitates compulsive gambling, an estimated five per cent of all gamblers. And the problems of compulsive gamblers are not confined to the individuals alone, but are keenly felt by their families and communities, including nonprofit and voluntary organizations in receipt of gaming grants. As well, gambling is justly seen as a very regressive form of taxation, as low-income Canadians are more likely than higher-income Canadians to gamble (Berdahl, 1999).

As the level of funding from government and other private giving sources has been reduced over the past 10 years, public foundations have opened up as a new source of revenue. Indeed, a particular sticking point for nonprofit and voluntary sector groups is that governments which are the beneficiaries of this gambling windfall are devoting less and less of the profits to the nonprofit and voluntary sector.[18] The Alberta government is a case in point. Thirteen years ago, it established a number of public foundations with gambling proceeds to fund arts and cultural groups, among others. The amount of money awarded to the foundations has not increased over this time. Indeed, taking inflation into account, there is less public funding available today for these groups from public foundations despite the increase in gambling profits. The Canada West Foundation estimated that in 1998, only 18% of revenues generated through gambling were set aside for nonprofit organizations (Azmier and Roach, 2000). Governments continue to promote provincially sponsored gambling as a means to support good works in the community, yet they are retaining the lion's share in their consolidated revenue accounts.

There are also concerns about the fact that for many smaller community groups, provincially sponsored gambling has seriously undercut their own charitable gaming activities, such as bingos. As well, these smaller groups do not have the same capacity as larger organizations to apply for provincial gaming grants. First, these groups may not be eligible to apply for gaming grants, depending on the funding parameters of the foundation or grant vehicle established by the province. Second, if they are eligible, many smaller groups do not have the capacity to successfully navigate a complex and time-consuming grant application process – all to replace funds that many used to generate themselves through their own charitable gaming activities. Certainly, charitable gaming is no panacea – a point that we return to below – but it did serve as a viable means of fundraising for many nonprofit and voluntary groups. Gaming grants are effectively displacing what was once a relatively stable source of annual funding for some organizations with a relatively erratic source of one-time funding for a select few.

The experience of Thunder Bay is a case in point. One of four Ontario casinos was built in Thunder Bay. The community supported the idea, lured by the economic development potential, but was very conscious of the fact that local charitable organizations that had relied on charitable gaming would be hurt once the casino opened. And indeed, the new casinos killed the existing community bingos. The charitable groups then applied to the Trillium Foundation for funding to offset these revenue losses. According to the head of the Arts and Heritage Council in Thunder Bay, "We had 116 groups here that financed themselves through bingos. Only 11 of those groups got Trillium grants." The others did not have the capacity to apply for funding, they were discouraged by the amount of red tape involved, or failed in their applications (Conlogue, 2002: R3).

Charitable gaming and gambling remain a contentious source of revenue for nonprofit and voluntary sector. That being said, however, gaming will likely continue to grow in importance in the coming years as gaming expands across Canada. It remains to be seen whether the nonprofit and voluntary sector will benefit for this.

**Corporate Sector Funding**

The corporate sector is a source of private giving for some nonprofit and voluntary organizations, particularly the larger organizations in the health and education fields.[19] And while individual donations constitute a larger source of revenue for the nonprofit and voluntary sector, nonprofit and voluntary organizations are increasingly targeting corporate donors – often with the encouragement of governments – in their efforts to diversify and expand their funding base. Understanding corporate philanthropy, therefore, is important from this perspective. As well, corporate philanthropy provides an important lens or window on global funding trends and the calculations involved in revenue generation.

Evidence suggests that corporations tend to favour larger, highly visible charities that display organizational structures and procedures with which the corporations can identify. Corporations tend to give small donations to selected groups, they prefer short-term funding for projects rather than funding to organizations, and they are loathe to become involved in longer-term commitments or to provide funding for on-going core operating expenses (Leat, 1995: 175-76). Thus, corporate funding is not a secure or stable source of revenues for nonprofit and voluntary organizations, even for those who are in receipt of funds. Indeed, current estimates suggest that the corporate donors only account for *one per cent* of total sector revenues. Historically, the corporate sector in Canada has not been a generous donor to charitable causes.

These data belie the contention that the corporate sector is a viable alternative funding source for nonprofit and voluntary organizations traditionally reliant on government funding. Evidence suggests that corporate funding in Canada and elsewhere in no way made up for government cutbacks to the nonprofit and voluntary sector through the 1990s (Hall and Reed, 1998). Indeed, reduced government spending has not spurred increased corporation donations. Contrary to the proposition that government funding crowds out private giving, American research suggests that lower levels of state funding for nonprofit and voluntary organizations is associated with lower levels of private giving, and corporate giving in particular, as it sets a lower standard of public responsibility (Siegfried and McElroy, 1981; Useem, 1987 cited in Leat, 1995: 176).

Corporate philanthropy is really only a potential source of revenue for a limited number of nonprofit and charitable organizations. As noted above, this stems in part from the comfort level of corporations dealing with organizations that more closely resemble themselves – in structure and personnel. It is also a reflection of the fact that corporations will favour those nonprofit and voluntary organizations that are in a position to deliver a significant return on their investment by way of recognition.

More recently, there has been a sea change in the way that corporations extend support to the nonprofit and voluntary sector. Some large corporations, for example, are setting up arms-length corporate foundations to manage donations. The larger trend, however, has been the pervasive shift away from corporate donations to corporate sponsorships. Marketing departments are now in control of "philanthropic" budgets. Corporations very carefully seek out potential nonprofit and voluntary sector partners to form strategic relationships that will deliver defined benefits, value and return for their investments in the form of heightened community profile and increased customer loyalty. There are fewer and fewer sources of unrestricted donations or funds. Rather, decisions are taken to maximize positive corporate exposure.

The world of corporate sponsorship poses many threats for nonprofit and voluntary organizations, not the least of which is to their reputation within the community. Organizations run the risk of losing control of their programs, devoting excessive time and energy to meeting contractual obligations of sponsors – often for relatively small sums of money – as well as getting bogged down in political and ethical dilemmas related to having their name associated with specific corporate sponsors or products. Under this new model of corporate philanthropy, organizations fear never being able to recoup their investment of time and resources expended in building relationships with the corporate sector. Certainly, many nonprofit and voluntary organizations report very positive and respectful relationships with corporate sponsors. Yet as with other sources of funding, it is important to consider the risks and benefits to participating organizations. The reach of private business into the nonprofit and voluntary sector through sponsorship agreements is an important trend that is transforming the funding landscape.

### Foundations

Charitable foundations and grant-giving trusts are part of the nonprofit and voluntary sector and a key source of funding for many groups. There are important differences between various foundations and trusts. Firstly, some foundations and trusts have substantial endowments and distribute the income from investments to advance the mission of the foundation. Other foundations and trusts such as community foundations raise funds to distribute in the same ways that individual nonprofit and voluntary organizations do. Like foundations that manage endowments, foundations and trusts that raise funds for charitable activities have clearly established processes for identifying funding priorities and allocating funds to designated charitable organizations.

The second important difference between charitable foundations and trusts is that some are private and some are public. A private charitable foundation manages and disburses private funds in support of charitable activity. More than 50% of foundation's assets come from a single person or group of people, most often a specific family. The founders appoint trustees or directors – often family members – to manage assets and coordinate grant-making activity.[20] By contrast, public foundations manage pooled assets, and no more than 50% of capital can be contributed by any one person or group of people. These assets are managed by an arms-length board of directors. Some public foundations are community foundations that focus on building endowments and supporting local charitable organizations.[21] Others have been set up to support particular activities such as habitat preservation or particular organizations such as hospitals and child welfare organizations. As discussed, another group of public foundations has been set up by governments, including those like the Millennium Scholarship Foundation and they are funded from the profits of government-sponsored gambling or other public funds.[22] All foundations and trusts are required to disburse a minimum of 4.5% of assets (averaged over two years) and 80% of receipted donations received in the last year (with the exception of bequests and gifts received with the direction to hold for at least 10 years) to qualified donees.[23]

Of the more than 1,500 active foundations in Canada, over 80% are private family foundations. In 2000, all grant-making foundations in Canada had combined assets of $9 billion; that same year, $848 million was disbursed in grants. Most foundations, however, are relatively small. A 1995 study found that 54% of private foundations and 43% of public foundations had revenues of less than $50,000 and that eight of 10 grants were for less than $5,000. Foundations cluster in three main areas: welfare, education and health. In 2000, the largest percentage of grants by dollar value were made to education (31%), followed by community benefit (25% including environment), arts (13%), and health (8%).[24]

Foundation funding has historically tended to be a relatively erratic source of funds. For one thing, foundations that draw on an endowment and/or raise funds are subject to the ups and downs of the business cycle; thus the amount available for disbursement year to year will vary, often at odds with the demands of nonprofit and voluntary organizations. Also, foundations tend to be highly targeted in their grant-making. The idea behind this type of grant-making is to provide short-term, one-time grants to launch a program or develop a business plan, for example, in order to leverage longer term, sustaining contributions from other funders, usually government. Foundations, both public and private, remain reluctant to assist with the ongoing costs of operating programs and services. They view themselves as an important, albeit supplementary, source of income to grant recipients.

The impact of this short-term approach can be devastating for groups, especially those which have historically been reliant on government grants to meet their mission and have now been thrown into the uncertain world of foundation funding. The National Ballet is a case in point. In 1996, funding for the Ontario Arts Council, an independent public granting council, was reduced considerably. In turn, the National Ballet's grant was cut back from $1.6 million to $900,000. Provincial arts organizations were redirected to the Trillium Foundation, a public foundation funded from provincial gaming profits. The objectives of this foundation are very different from the Ontario Arts Council. The Trillium Foundation is expressly designed to foster self-sufficiency among nonprofit and voluntary groups; there are funds available to hire fundraisers, to develop marketing plans, to do community outreach, but no funding available to actually do ongoing programming. The National Ballet was successful in 2000 in securing a grant of $75,000 under the community outreach and education stream to fund their 50th anniversary celebrations. However, they have not been successful in securing funding to actually pursue their core mandate (Conlogue, 2002: R3).

This approach has been questioned through the 1990s, as a number of foundations have reassessed their role and the efficacy of past grants. Private foundations such as the Laidlaw Foundation in Toronto and the Samual and Saidye Bronfman Family Foundation in Montreal increasingly view their role as an investor or collaborator in community and organizational development. These foundations are attempting to move away from short-term, "reactive" awards to grants that have a lasting impact through targeted community and organizational capacity building initiatives, often over a multi-year timeframe.

With this general shift in approach to a more "proactive" approach to funding, public and private foundations are operating increasing like government funding bodies. Certainly from the perspective of nonprofit and voluntary groups, the time involved in applying for grants has increased, but also the funding available is now more narrowly prescribed. One major foundation, for example, is now requiring a survey of potential project beneficiaries to determine need **before** submitting a proposal for funding. Depending upon the scale of the project and/or organization, these types of developmental activities are often beyond the capacity of many organizations to complete. Similarly, reporting requirements have increased as well. Whereas grants used to be awarded with relatively few strings attached, both public and private foundations are instituting much tighter accountability and oversight requirements.[25]

By and large, private foundation funding remains peripheral to the majority of nonprofit and voluntary groups. This funding has done little to support core needs and functions of nonprofit and voluntary organizations. The trend toward capacity-building is evident among certain larger foundations but has influenced relatively few organizations. Public foundations, by contrast, are emerging as a significant new funder for the sector. Indeed, public foundations are displacing governments as primary funders in some areas of the nonprofit and voluntary sector. The evidence to date suggests, however, that the difference between these two income sources for nonprofit and voluntary groups may well be small. This is clearly an area for further study.

### United Way/ Centraide

No discussion of funding and the nonprofit and voluntary sector in Canada would be complete without reference to the United Way/ Centraide. These organizations are incorporated charitable philanthropic intermediaries which raise funds to "strengthen and build communities" (www.unitedway.ca). The first United Way/ Centraide was formed in Denver, Colorado in 1887, when local community service organizations banded together to solicit support for their organizations. In Canada, the United Way/ Centraide dates back to the early 20th century: the first federated campaigns were mounted in Toronto and Montreal in 1917. Through the early part of the century, Catholic, Protestant and Jewish charities undertook fundraising campaigns on behalf of "member agencies." United Ways/ Centraides were, in the early years, known by various names including, Red Feather, Community Chest and United Appeal.[26] In the mid-1970s, community fundraising appeals adopted the title United Way and Centraide. Today, 125 United Ways/ Centraides are working across Canada. In 2001, they mobilized over 200,000 volunteers to raise $334 million dollars for more than 7,000 funded agencies. An additional 10,000 charities received donor designated dollars through United Way/ Centraide agencies. Together, local United Ways/ Centraides raise approximately 3% of charitable sector revenues and account for 15% of volunteers.

United Ways/ Centraides are important local funders for many nonprofit and voluntary sector organizations across Canada. Their credibility in local communities is well established, reflected in the growth of campaign dollars over the decades and the commitment of countless volunteers and businesses to their activities. The number of funded agencies is relatively small compared to the number of registered charities in Canada – roughly 9% – and certainly in comparison to the estimated number of nonprofit organizations. While the perception is that the United Way/ Centraide is a major funder of the charitable sector, in reality, they fund a relatively small number of groups.

Historically, federated funding appeals worked on behalf of a small number of community groups. Local charities applied to United Ways/ Centraides to be included on their roster of "member agencies."[27] Once an agency was successful, they were typically able to count on United Way/ Centraide support year after year. This situation created the impression that the United Way/ Centraide was a closed club for the lucky few. As the number of nonprofit and voluntary organizations grew – particularly through the 1960s and 1970s – the pressures on United Ways/ Centraides grew as well. Community groups outside of the funding net were critical of the United Way/ Centraide and its dominance in local fundraising. (They continue to be frustrated in their own fundraising efforts by the public perception that the United Way/ Centraide funds a broad range of community groups.) Donors were increasingly dissatisfied as well when they were not able to direct funds to the agencies of their choice. During these years, United Ways/ Centraides were able to address concerns by expanding fundraising activities and agency rosters. From the 1960s through the 1980s, campaigns "to increase the capacity of communities to care for one another" were very successful in generating additional dollars to expand and enrich United Way/ Centraide allocations. In addition, some United Ways/ Centraides helped to launch new agencies to address growing community needs. Over the past decade, however, growth in contributions has not kept pace with demand. At the same time, United Ways/ Centraides have been forced to rethink their traditional role as fundraisers in response to community and donor pressures, not the least of which has been the reduction in government funding for nonprofit and voluntary groups through the 1990s, and the demands of donors for greater recognition and control.

There have been three notable shifts in the practice of United Ways/ Centraides. First, United Ways/ Centraides are trying to reshape their image and reorient their activities around the role of "community building." This is more than a rhetorical slight of hand. United Ways/ Centraides, to varying extents, are embracing a much more targeted approach to funding in an effort both to identify and address emerging community concerns. Many United Ways / Centraides are not content to be "chequebooks and thermometers." Rather, they are positioning themselves as local "knowledge brokers" and community developers, bringing together key players around issues of concern. "Success by Six" is an example of the new approach to community development. A number of United Ways/ Centraides have initiated Success by Six programs in their communities, spearheading efforts and leveraging resources to expand early childhood programs. These United Ways/ Centraides have taken the lead in bringing together community groups, municipal and provincial governments, school boards and private companies to develop services that achieve measurable improvements in health and well-being of young children.

Success by Six also illustrates another key trend influencing United Ways/ Centraides: the focus on the "outcomes" of programming for community members. In the words of one official, United Ways/ Centraides are attempting to shift their emphasis from "funding agencies to funding impact." The impact of outcome thinking is not confined to new initiatives. United Ways/ Centraides are redesigning their application and evaluation processes to encourage new applicants as well as established recipients to rethink their programming in terms of client outcomes. United Way of Canada/ Centraide Canada and the United Way of America have been very proactive in developing resources and evaluation tools to encourage the reorientation of funded agencies and their programs.

And lastly, over the past decade, many United Ways/ Centraides have adopted a strategy of "donor designation" to enhance their competitiveness in the fundraising market. Donor designation allows individuals or businesses to target their donation to a specific charity or cause, whether or not it is a funded agency of the United Way/ Centraide. Similarly, a limited number of United Ways/ Centraides are also attempting to develop customized packages for selected donors that provide greater control and individual recognition for large campaign contributions. United Ways/ Centraides are trying to establish themselves as larger players in the "voluntary marketplace" in order to compete on a more equal footing with other major fundraisers, such as hospitals and universities.

These changes have predictably elicited a lot of response at the community level over the past few years, both from funded agencies and those that do not receive funding. The effort to expand the roster of funded agencies to accommodate changing community needs and issues, as well as the new emphasis on funding outcomes has challenged the financial security of long-standing members of United Way/ Centraide. On the other side, community groups on "the outside" continue to express doubts about the United Way/ Centraide's commitment to open its door to non-traditional agencies as the growth in the number of new agencies remains small. This has been a concern among agencies serving ethnocultural and visible minority communities for many years. There is also a great deal of confusion about the new direction of United Ways / Centraides and considerable frustration with the application process and list of eligible costs in many communities. All of this has taken place against a backdrop of funding cuts from governments and other private sources and heightened donor scrutiny. At a time when governments are pulling back from organizational funding, some United Ways/ Centraides are adopting a similar approach, confining their funding to a smaller list of priorities.

It is difficult to talk about the United Way/ Centraide as a single entity because of its strong tradition of local autonomy among its 125 organizations across the country. What is not in dispute, however, is that together they are an important piece of the funding puzzle for the nonprofit and voluntary sector. In their own right, they work to engage "the whole community for the benefit of the whole community," and in so doing, contribute significantly to building social capital within their local communities. At the same time, the tensions that characterize the relationship between other funders and nonprofit and voluntary organizations are evident in the relationships between individual United Ways/ Centraides and local agencies and organizations as well. United Way/ Centraide funding poses its own challenges and opportunities for nonprofit and voluntary organizations.

Having described the major funding sources and mechanisms potentially available for nonprofit and voluntary sector organizations, we turn next to a new funding regime that is emerging in Canada. We detail the characteristics of this funding regime and describe what we have learned from this study, particularly from the focus groups, about the impacts of the changing funding landscape on the sustainability and capacity of a cross-section of nonprofit and voluntary organizations.

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## Endnotes

[1] For the purposes of this report, we are adopting the labels "nonprofit and voluntary" sector and "nonprofit and voluntary" organization. See Chapter 1.

[2] Some critics argue that the distinction between is so blurry as to be meaningless (Abzug, 1999). In a similar vein, others argue that nonprofit and voluntary organizations in various sectors often have more in common with for-profit or government organizations operating in the same fields, such as health (Gidron, Kramer and Salamon, 1992: 4). For the purposes of this study, we argue that the nonprofit and voluntary sector, albeit difficult to definitively define, is distinctive in its structure and operation, as well as in its contributions to society. That being said, it is important to note the differences as well as the similarities in attempting to understand the nonprofit and voluntary sector. And this is certainly true in understanding the financing of nonprofit and voluntary organizations.

[3] Health Canada has sponsored the development of a set of benchmarks for the voluntary health sector that identify the characteristics of an "excellent" organization. These include organizations that: have a clear purpose and compelling vision; produce meaningful results; optimize resources for impact; maintain full accountability; are responsive and innovative; exhibit a culture of collaboration; and have a productive and positive work environment. See Linda Mollenhauer, *Benchmarks of Excellence for the Voluntary Sector*, Participant's Workbook and Facilitator's Guide, ALS Society of Canada, 1999.

[4] This perspective on organizational behaviour has been called resource dependency theory. It argues that organizations that are not capable of internally generating the resources they need to survive, attempt to secure these resources from external partners. Dependences are created – some of which can be problematic. These dependencies in turn can influence the organizational goals, structures and decision-making (Aldrich and Pfeffer, 1976; Pfeffer and Salanick, 1978). There are, of course, critiques of this specific body of organizational theory – and its centrality in understanding organizational behaviour. Yet most would agree that the financial capacity of an organization and its funding relationships are central to the ability of an organization to meet its mission.

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[5] Steven Krasner defines regime as a set of "principles, norms, rules and decision-making procedures around which actor expectations converge in a given issue-area" (Krasner, 1982: 185 cited in Smith and Lipsky, 1993: 43). Smith and Lipsky use the concept of contract regime to describe the extensive government practice of contracting with nonprofit social service agencies in the United States. Their book is an important contribution to the literature on nonprofit and voluntary sector funding.

[6] Please see Diana Leat, "Funding Matters" in *An Introduction to the Voluntary Sector*, eds. J. Davis Smith, C. Rochester and R. Hedley (London and New York: Routledge, 1995). The following discussion draws upon her article.

[7] In practice, there is a good deal of overlap between funding sources and mechanisms. Fundraising is both a source and mechanism of funding. In our report, we do not make a strict distinction between these terms.

[8] See Susan Phillips, "How Ottawa Blends: Shifting Government Relationships with Interest Groups," in *How Ottawa Spends 1991-92: The Politics of Fragmentation*. Frances Abele, ed. (Ottawa: Carleton University Press, 1991). "The rationale for government funding of public interest groups is embedded in the small-l liberal notion of the benefit of both a pluralist society and pluralist state. The presumption is that strong organizations of citizens have an intrinsic value and are essentially for a healthy society … Therefore, government funding to these disadvantaged constituencies adds an element of fairness in the representation of the spectrum of interests in Canadian society. It allows organizations of women, Natives, official language minorities and poor people to be heard among the voice of the economically powerful" (197).

[9] There are differences between various governments with regard to funding terminology. We have elected to use the definitions of government funding vehicles developed by the Treasury Board Secretariat of the Government of Canada.

[10] Contracts that are competitively tendered through an open-bidding system tend to be less complicated because their exclusive focus is value for dollar. As such, these competitions are designed to identify the lowest bidder for a service, other considerations being secondary.

[11] Nonprofit and voluntary sector organizations – including charities – are not strangers to earned income activity. Typically, these activities have been organized on a nonprofit basis. However, it is important to note that nonprofit and voluntary organizations are free to establish for-profit ventures, subject to regulation by the Canada Customs and Revenue Agency (CCRA). Under CCRA guidelines, charitable organizations and public foundations can operate "related businesses" that promote their charitable missions. They can operate other business activities if the majority of staff involved are volunteers. There remains a great deal of confusion, however, about the precise interpretation of "related business." This is one of the issues under study by the Voluntary Sector Initiative.

[12] It is important to note that nonprofit and voluntary organizations derive earned income from government sources as well. Indeed, as just noted, many governments are now tendering service contracts on a competitive basis. However, we make a distinction in this study between sources of

income derived from government (including contracts awarded on open bidding systems) and sources of earned income derived through the sale of goods and services to members, other organizations – both nonprofit and for-profit – and the public. For our purposes, it was important to identify government sources of funding in order to assess the impact of this funding source on recipient organizations. Thus, the value of total earned income from all sources – government and non-government – will be considerably larger than is immediately evident from our taxonomy of income sources.

[13] Dart and Zimmerman have explored the issues related to commercialization among nonprofits (Zimmerman and Dart, 1998; Dart and Zimmerman, 2000). Others such as Paul Browne and Walter Hossli have looked at the introduction of competitive tendering in home care and community-based training services respectively (Browne, 2000; Hossli, 2001). See also Tindale and MacLachlan, 2001.

[14] Earned income, according to some commentators, provides a "double bottom line" that forces the manager "to live within a dynamic tension of what makes good business sense and what fulfills the organization's social mission" (Emerson and Twersky, 1996, cited in Zimmerman and Dart, 1998: 7).

[15] Kramer talks about the clash of cultures that can occur in organizations. Clashes can stem from a variety of sources, including pressures related to earned income services and activities and the ongoing processes of institutionalization and professionalization within individual organizations, as well as larger shifts in the economy and society (Kramer, 1990: 50).

[16] In 1999, roughly 2% of the total revenues of Canadian charities came from investments (interests, dividends and capital gains) and 1.3% came from rental income (unpublished CCRA data).

[17] Hall, M., L. McKeown and K. Roberts, *Caring Canadians, Involved Canadians: Highlights from the 2000 National Survey of Giving, Volunteering and Participating*. Ottawa: Ministry of Industry, 2001.

[18] In 1998, an estimated 18% of provincial gambling revenues were set aside for voluntary and nonprofit organizations, despite public opinion that three times this figure should be set aside for the activities of these organizations (Azmier and Roach, 2000).

[19] A 1995 study found that corporate donations accounted for nine per cent of total fundraising revenues reported by Canadian charities (Hall and MacPherson, 1996: 1).

[20] For more information, see www.pfc.ca.

[21] The purpose of a community foundation is to build an endowment for a particular community. Donors can set up individual funds and have as little or as much control as they wish in determining which local charities benefit from their funds. Alternately, funders can contribute to the general endowment fund, the investment income from which is distributed by the foundation's

board of directors to address community needs and opportunities. (For more information, see www.community-fdn.ca.)

[22] Government foundations can take many forms. The Millenium Scholarship Foundation is a nonprofit corporation that was established by Parliament and operates under an autonomous Board of Directors. The Trillium Foundation, by contrast, is an agency of the provincial Ministry of Culture. For the purposes of this study, we refer to all government sponsored and funded nonprofit grant-making entities as public foundations.

[23] Under the *Income Tax Act*, foundations can only transfer funds to qualified donees which include registered charities, registered Canadian amateur athletic associations, registered national arts service organizations, the United Nations and its agencies, and a few other categories.

[24] See www.pfc.ca/Eng/aboutkey.html. Also, www.ccp.ca.

[25] Concerns about accountability have also been raised regarding the relationship between public foundations and governments. In some instance, people have been critical about the extent of political oversight of supposedly arms-length granting bodies. The premier of Ontario, for example, appoints all of the board members of the Trillium Foundation. Board members are responsible for all of the granting decisions. Concerns have also been expressed about the lack of financial accountability of a growing number of public foundations to public legislatures. In April 2002, the federal Auditor General released a damning report about the lack of reporting on the expenditure of public funds set aside in public foundations.

[26] In 1939, local federated funding appeals came together in a national organization under the auspices of the Canadian Council on Social Development (CCSD). In 1957, this group adopted the label "Community Funds and Councils of Canada." It became an autonomous organization in 1972, later changing its name to United Way Canada/ Centraide Canada. By 1978, United Way Canada had completely separated from the CCSD.

[27] No agency receives 100% of its funding from the United Way/ Centraide.

# Part II: Our Findings

## Chapter 3: The Emergence of a New Funding Regime

> As we approach the end of the twentieth century the voluntary sector is on the horns of a dilemma. It needs to enter the market and to become leaner and fitter, more efficient and effective, if it is to survive in the new "post welfare state" mixed economy. But entering the market, with all its knock-on effects, may reduce the sector to a second tier of government or transform it into a rather ineffective part of the for-profit commercial sector ... The only certainty is the truism that in the year 2000, the voluntary sector will be a very different place from that we know today (Leat, 1995: 185-86).

The nonprofit and voluntary sector is indeed in a different place today than it was a decade ago. The powerful forces of commercialization and the increasing costs and constraints associated with funding from external funders such as government, foundations and United Ways/ Centraides are but two of the key trends that are transforming the funding landscape for the nonprofit and voluntary sector.

In this chapter, we argue that a new funding regime is emerging in Canada. A funding regime suggests that there is a unified set of values and regulations governing the relationship between the nonprofit and voluntary sector and their stakeholders, including funders (Smith and Lipsky, 1993). Participants in our study identified a diverse range of funding arrangements, yet the common threads between the experiences of environmental groups and ethnocultural associations, for example, were clear and startling. Common values and principles were evident not only in the different funding mechanisms and practices identified, but also across the country. While the mix of funding sources and arrangements varied from province to province, nonprofit and voluntary groups in Nova Scotia were struggling with similar issues to those in Quebec and Alberta. A new funding regime is emerging that threatens the financial capacity and security of the nonprofit and voluntary sector.

The funding regime that is described in this chapter is based on an extensive review of the literature as well as a detailed analysis of interviews with key informants and discussions with participants in our focus groups and case studies. Our informants paint a detailed picture of a new funding regime that is characterized by:

- increased targeting of funds;
- a shift from a "core" funding model to a "project-based" funding model;
- increased attention on funder accountability and reporting, tied to new ideas about results-based management and governance models;
- greater emphasis on partnerships in requests for proposals and choices of funding mechanisms;
- the continued perception of nonprofit and voluntary groups as largely voluntary enterprises; and

- greater emphasis on market models to encourage greater self-sufficiency and more efficient modes of operation among nonprofit and voluntary organizations.

Below we explore each of these regime dimensions in greater detail.[1, 2]

## 1. Funders are adopting an increasingly targeted approach to funding

> "You are constantly having to juggle your mission and mandate to suit the funding agenda. It isn't your funding agenda, let's be clear, it is their funding agenda." (FG: A)

There is a general perception across the nonprofit and voluntary sector that funders are adopting an increasingly targeted approach to funding. While all funding is targeted to the extent that it is always directed to certain areas or organizations, groups have noticed that funders are increasingly imposing their priorities on the sector. This is manifested in a number of ways – through highly targeted government funding programs to selected groups or on selected topics, through the movement to "donor designation" among funding appeals such as the United Way/ Centraide, through what some have called the "obsession" of funders with innovation and pilots. Where once funders and nonprofit and voluntary organizations came together to discuss community priorities and possible programming options or, as often was the case, nonprofit and voluntary groups came forward with funding appeals for projects related to their missions, increasingly organizations are reporting that funders are narrowing the scope of funding programs and opportunities.[3] While it can be argued that private giving has always been targeted to the priorities of the donor, private foundations and the like are also adopting a "strategic approach" where they are more actively engaged in defining selected projects and concentrating funds for maximum effect. And public funders are adopting the same approach.

Narrowing the focus of financial support – and hence the range of nonprofit and voluntary groups funded – is linked to a number of related trends, including concerns about efficiency (whether donated dollars are having their intended effect), about accountability on the part of nonprofit and voluntary organizations, and about limits of available funds and the legitimate role of government (as the primary funder of the nonprofit and voluntary sector) in supporting "volunteer" activity. It is also tied to the ongoing debate about the role of the nonprofit and voluntary sector as an expression of community sentiment and dissent. These concerns on the part of funders are related to the growth of funding programs in the late 1960s and 1970s, programs that have been criticized in hindsight as having fuelled the growth of demand for financial support, and in this view, public debt. In the climate of fiscal restraint that characterized the 1990s, government and other funders have sought ways to scale back their commitments to the nonprofit and voluntary sector – and at the same time, calling on the sector to do more as public services in particular were cut back, devolved or eliminated altogether. As well, problems in the administration of funding programs highlighted in various reports of provincial and federal auditors, and criticism of nonprofit and voluntary organizations – especially by those critical of government's involvement over the years (see the Bryden Report, 1994) – have come together to reinforce the shift to more highly targeted forms of funding

Targeted funding certainly begs the question as to who is best able to speak for community needs in defining funding programs. Certainly participants in our focus groups thought organizations in the community were best able to access and respond to local needs and demands. One participant from Quebec said: "When funding sources drive the mission of the organization it means the community often loses out" (FG: CS-Q). However, the impact of funder-driven approaches to funding of nonprofit and voluntary organizations is not in dispute.

Overall, we can see a pattern of "winners and losers." In more targeted funding regimes, certain groups and activities are marginalized. This happens across and within subsectors. Looking at private giving, for example, there are well-established biases in public support for various groups. The health charities are the number one draw for public dollars, followed by education. Anti-poverty organizations, by contrast, are near the bottom of the list. One participant noted that "the donor community as a whole tends to be very conservative – they're not very comfortable giving money to something that isn't a building or a disease" (FG: E). There tends to be a bias towards "bricks and mortar" over programming or administration. As well, there are biases in favour of certain topics or issues. Environmentalists note that organizations fundraising on behalf of wildlife preservation – the "bears and bunnies" – have a much easier time than those fundraising on behalf of land trusts or climate change. Similarly, among international development agencies, child sponsorship programs clearly dominate private fundraising. Half of all fundraising accrues to the four largest child sponsorship organizations; World Vision alone raised 28% of all donations in Canada in 1996.[4]

Nonprofit and voluntary groups understand the vagaries of private giving. They have historically turned to public funders, especially in instances when their causes were not popular with the general public. Yet the targeting of dollars characteristic of private giving is increasingly influencing public giving. Whole sectors of the nonprofit and voluntary sector have been marginalized. Women's equality seeking organizations are a case in point.[5] Other organizations are being pushed off mission as they scramble to modify or introduce new programming to qualify for new funding programs, often of short-term duration. The impact on the autonomy of the sector and in turn, the impact on the community is significant – a subject we will discuss in greater detail in Chapter 6. At the organizational level, increasingly targeted funding creates a bias in favour of more well-established organizations with the infrastructure to pursue ever-changing funding priorities. Other organizations – often smaller or younger groups – are left searching for a foothold to sustain their programming. Targeted funding – in conjunction with other funding trends – has become an extremely effective way to winnow out the nonprofit and voluntary sector.[6] "Campaigns and crusades, even the most temperate, are not the stuff of government. In the abstract, advocacy has its place, but in the cold light of a contracting morning, it attracts little in the way of understanding and tolerance" (Smillie, 1999a: 10).

In a parallel development, other funders, including public and private foundations and federated funding appeals, are adopting a more strategic approach to their funding. Community Foundations and some United Ways/ Centraides are attempting to tailor their fundraising campaigns to fine tune their appeal to donors. Hospital foundations and universities have paved the way here, developing highly targeted fundraising packages to meet the needs of individual donors. For example, you have certain community foundations offering, for a fee, to set up "vanity" foundations on behalf of individual donors under their umbrella. Similarly, certain United Ways/ Centraides are creating opportunities for large community donors to target their funds to selected charitable activities. This is an extension of the current practice of many United Ways/ Centraides to allow for donor designation; individual donors are increasingly able to target an area or even a specific member agency to receive their United Way/ Centraide donation. Advocates of these practices point out that greater consumer choice greatly facilitates fundraising. As the competition for donations has increased, being able to offer a more "personal" approach – and one which offers enhanced visibility for the donor – works to increase the dollars available for charities. It is also true that a more targeted approach can work to undermine the importance of generating community funds for many groups that simply don't have the same appeal to individual donors. Many John Howard and Elizabeth Fry Societies – agencies that do tremendously important community work – rely upon donations from United Ways/ Centraides. As more funds are targeted by donors through a community-based fundraising effort, fewer funds may be available for "unpopular" causes. It raises profound questions about the role of community-based fundraising appeals in the first place.

The same type of targeting is also evident in corporate donations. Many focus group participants commented that corporate donors almost never give donations anymore. Rather, as we noted in Chapter 2, corporations are seeking out sponsorship opportunities – funded through their marketing budgets – tying their corporate and philanthropic objectives together. This is a huge shift for nonprofit and voluntary groups as corporations are in effect buying exposure and the right to use the name of a given charitable or nonprofit sector concern to advance their profit-making goals. This presents large ethical dilemmas for nonprofit and voluntary groups as they assess the ramifications of pursuing commercial ventures of this sort. Certainly, sponsorship is much more common in certain subsectors of the nonprofit and voluntary sector, such as arts and culture and recreation, rather than in social services. But even here, we found that groups are entering into these agreements – conscious of the risks, the largest being the possible risk to their reputations.

Nonprofit and voluntary organizations across the spectrum did not like sponsorship arrangements. Many stated that they pursued sponsorship agreements because it was the only funding available from specific donors. Because sponsorship arrangements can be complex to negotiate and fulfill, they typically favour those nonprofit and voluntary organizations that have the infrastructure to pursue and conclude these contracts. On the whole, the nonprofit and voluntary groups surveyed felt that corporate donors were demanding a great deal for often very little money. More than one group said they had lost money on these deals, as efforts to profile corporate donors through a program or concert, for example, were more costly than the funding provided. One national social service organization undertook to administer a corporate scholarship program for one of its sponsors that did not contribute to its mission or bottom line. Another group stated: "From the corporate sector, it's flavour of the month – pursuit of pet projects" (FG: A). Groups in the arts and in the recreation and sports fields did speak positively about their long association with many corporate donors. The trend to sponsorship away from corporate donations, however, was seen as problematic, yet another example of a funder-driven change that is highly risky and costly from the perspective of nonprofit and voluntary groups.

### 2. There has been a marked shift away from a "core" funding model to a "project-based"/ "contract" funding model.

One of the difficulties in mounting a project of this scope is to settle on a common language. The language of funding predictably varies across the country from jurisdiction to jurisdiction. While many organizations did not speak about "core funding" *per se*, everyone spoke about the impact of the shift from funding organizations to pursue their mission through mechanisms such as grants, to contracting with organizations to provide specific programs or services. With this change in focus, funders are increasingly narrowing the range of organizational activities that they are willing to fund; specifically, they are narrowing their focus exclusively to costs related to a given project or program and extending greater financial control and administrative oversight through new funding mechanisms. The impact of this shift has been profound for nonprofit and voluntary organizations and their capacity to pursue their goals. This trend graphically illustrates that it is not just the level of funding that is critical to financial and organizational capacity, but the way in which funding is delivered.

Generally speaking, there are three key distinctions drawn between "core" funding models and "project-based" funding models, the terms we have used in our study. The first is that "core" funding refers to financial support that covers basic "core" organizational and administrative costs in addition to program specific requirements. Providing funding to an organization to operate its own chosen programs is a clear example of core funding. By contrast, program or project funding tends to focus exclusively on project costs. An organization is typically allowed to include a portion of administrative costs such as phone or rent in a project budget, but there are strict terms and conditions detailing what is an acceptable expenditure and what is not.

The second important distinction between a core and project-based funding model is the degree of autonomy that the organization exercises. Nonprofit and voluntary organizations under a core funding arrangement retain a significant degree of independence in selecting and implementing program and organizational objectives. Within a project-based funding model, the control of the content generally lies with the funder. This is why earned income and private donations are usually referred to as core funding; because once the dollars are in hand – no mean feat – the organization is at liberty to use those funds as they wish to pursue their mission. Similarly, grant income is usually considered to be a form of core funding. Lastly, core funding tends to be of longer duration, and is considered a more predictable form of funding. Project funding is anything but secure and is invariably short-term. Organizations find themselves gearing up on a project only to conclude, then starting over again with yet another activity.

The language of core and project funding, then, is shorthand for a complex set of changes – arguably the most important – that are coming together under a new funding regime. It is not surprising that there is often some confusion in describing the differences between these two competing funding models and the implications of each for nonprofit and voluntary organizations. We will discuss the three dimensions of the project-based funding model below. It is important to note that these changes obviously affect those nonprofit and voluntary organizations that apply for and receive funds from governments, granting agencies, and/or public or private foundations. Thus, this is a trend that does not directly affect all nonprofit and voluntary organizations equally. That being said, however, the shift to "project thinking" – and all that is implied with this reorientation on the part of the dominant funders of the nonprofit and voluntary sector – speaks to the broader forces driving change in the sector: the privatization of risk; the erosion of social cohesion/ civic engagement/ community-mindedness; and the marketization of social and economic relations. The hegemony of project or contract funding at the very least changes how all organizations go about securing and balancing the funding sources and resources necessary to foster and sustain operations.

### 2 (a) Funders are now very reluctant to fund organizational administrative costs that cannot be directly tied to a project or program.

> "Five years ago, the money we got to deliver these government programs actually covered the costs – now I'm not nearly covering the cost of operating the building. In reality, we're subsidizing the government programs" (FG: CS-NB).

From a funder's perspective, the shift from core to project-based funding is driven by the desire for greater control over the activities of nonprofit and voluntary organizations, reduced risk of failure, and enhanced accountability for the expenditure of public dollars. Under a core or organizational funding model, funders typically provide funds to support the work of the group as a whole, secure in the knowledge that these organizations are pursuing important social objectives. It is a model that respects the boundary between the nonprofit and voluntary sector, state and market, where the unique "value-added" of nonprofit and voluntary organizations is recognized, particularly its role in fostering social capital (Putnam, 1993). Funders are interested in the impact of the whole organization in its community.

By contrast, a project-based model shifts the focus of attention to specific programs or activities and away from the whole organization. It effectively turns the adage "the whole is greater than the sum of its parts" on its head. Funders are interested in a specific set of outputs or outcomes – only one part of the whole. Funds are provided for the single activity or program in keeping with funding priorities established by the funder – very commonly at funding levels that do not actually cover the program costs. Strict conditions are typically established that govern the conduct of the project and restrict the use of funds for selected purposes. Expenditures and program outcomes are then closely monitored through frequent project and financial reports to the funder.

It is no surprise that nonprofit and voluntary organizations are having increasing difficulty in providing the infrastructure necessary for effective program delivery under this myopic approach to organizational funding. It would be one thing if nonprofit and voluntary groups entered into funding agreements where non-direct program costs were built into the pricing structure of the contract. But funders take a narrow view of allowable expenses and many don't allow organizations to charge an administrative fee at all.[7] The reasonable idea that nonprofit and voluntary groups should devote as much of their resources as possible to their varied programs has turned into the unreasonable demand that they commit almost everything.[8] As a result, non-program functions are underfunded. This include things as basic to survival as organizational management, human resources management and volunteer coordination, board governance, research and evaluation, and costs related to maintaining financial reserves for salaries and wage liabilities, capital replacement or other contingencies (for example, when project funding is late and staff have already been hired). Similarly, there is no understanding or room on cash flow reports to include activities related to staying connected to clients and beneficiaries, community members or other nonprofit and voluntary organizations. There is certainly no room to participate in policy development discussions at the request of funders – most frequently governments. These activities cannot be easily itemized and directly attributed to specific programs.

From the perspective of the funder, there are real issues related to how non-program costs are defined and allocated across the various program activities of nonprofit and voluntary sector organizations. Yet focus group participants felt that the current state of affairs now verges on paranoia. One participant likened the current approach to non-program cost funding to playing musical chairs. Funders are desperate not to be the last one standing, not to be seen to be funding administrative or infrastructure costs. Administration has become a "dirty word" in the world of nonprofit and voluntary sector financing.

One key informant to this project recalled hearing a story about the length of time it had taken for the majority of businesses operating in the World Trade Centre to resume business following the devastation of September 11th: approximately eight hours. This was because many of these businesses had duplicate resources off-site and the ability to mobilize these resources quickly. "Redundancy" is an important principle for successful businesses precisely for this reason. Private business would never consider applying for a service contract without factoring in the costs of running their organization, including the need for reserves to weather the ups and downs of the business cycle. Yet nonprofit and voluntary sector organizations are expected to do so.

## Comparison of Voluntary and Private Sector Contractual Arrangements

| Not-for-profit – Voluntary Sector Practice | For-profit – Business Practice |
|---|---|
| **Fixed price contract** (no profit allowance)<br>-cost overruns are the organization's responsibility<br>-under-spending is recovered by the funder<br>Implications – The organization cannot build up reserves to cover program deficits. Every dollar overspent on a program puts an organization in debt. The organization has decreased resiliency and organizational capacity. | **Fixed price contract** includes profit (ranging from 7-20%)<br>-cost overruns are the organization's responsibility<br>-under-spending is retained by the organization (profit)<br>Implications – For-profits can build up retained earnings out of surplus or profit. They can use these funds to cover program overruns in other areas. Organizational resiliency and capacity are built into funding structure. |
| **Non-direct program costs** (all costs except frontline staff salaries are limited to 10% or similar figure, depending on the program and regardless of actual cost.)<br>Funders expect the organization to cover the shortfall with a "contribution."<br>Most overhead costs are not considered for funding. | **Non-direct costs and overhead** are negotiated into the pricing structure of the program with a profit margin.<br>Funders expect and allow the business to cover its costs in the pricing structure. |
| **Contract renewals** do not necessarily include a review of the costs of a program. Contracts are often renewed for a pre-determined fixed amount. Actual increases in operating costs and staff compensation are often not considered when determining the renewal budget.<br>Implications – Organizations may have difficulty meeting legislated obligations such as pay equity. Staff are hired on short-term contracts to keep compensation low, increasing staff turnover. The organization must spend time searching for donors to support under-funded contracts. The organization may have limited ability to absorb additional costs internally. | **Contract renewals** must keep pace with expenses or the business will withdraw from the program. The profit allowance gives the business more capacity to cover funding shortfalls until contracts can be adjusted.<br>Implications – For-profit businesses have more capacity to absorb losses in the short term. Indeed, when competing against the voluntary sector, operating at a loss in the near term is one way of gaining market share. |
| **Commitment to Mission**<br>Voluntary sector organizations are committed to the mission and tend to be reluctant to abandon a service, notwithstanding inadequate funding. Funders have benefited from this commitment. | **Commitment to Profit**<br>Funders understand and accept that for-profit businesses need to make a reasonable profit or they will stop providing the service. Funders respect this approach. |

Source: Lynn Eakin, *Supporting Organizational Infrastructure in the Voluntary Sector*, Background Paper Commissioned by VSI Secretariat, May 2002: 11.

There are funders who understand and take seriously the importance of funding infrastructure. CIDA has had an "overhead rate policy" that recognizes indirect costs as a necessary part of the organization's operation or business. It is understood that organizations will have unique overhead costs depending on their operating environment or organizational structure, and that an acceptable overhead rate will not reward inefficient operations, nor will it punish efficient operations (Eakin, 2002: 3). This policy is currently under review, however. The United Way of Greater Toronto is one of many United Ways/ Centraides that will also fund the infrastructure or non-program costs of its member agencies. The Muttart Foundation in Alberta provides multi-year grants to assist health charities with a range of organizational development activities. To this end, the Foundation provides core funding where deemed necessary to support efforts to become "more effective." However, to date, most nonprofit and voluntary organizations continue to have difficulty securing funding for their core activities, activities that are critical to the success and long-term sustainability of their organizations.[10]

### 2 (b) Requirements for funding and conditions on the receipt and expenditure of funds have increased substantially with the shift to contract funding. There are more strings attached.

> "It's not even about more money. Just give us more discretion" (FG: E).

In the push to "rethink" government through the 1980s and 1990s, much has been written about the drive to contract out public services to for-profit and nonprofit providers.[11] In Canada, there is now an extensive literature on the impact of contracting out, certainly for the workers involved, but also for the Canadian public in terms of the access and quality of service (see Browne, 1996; Armstrong, 1997; Jenson and Phillips, 1996; Evans and Sheilds, 2000). Contracting out has been a key strategy for reducing the size of the state and for introducing market principles into areas of service delivery previously confined to the public sector.

However, governments have not only been contracting out public services, but also "contracting in" selected services. In this instance, services once provided by independent nonprofit and voluntary organizations are increasingly being "standardized, more narrowly specified, and brought under tighter government control and supervision through the vehicle of purchase-of-service contracts replacing grants-in-aid" (Nowland-Foreman, 1998: 115). The purchase-of-service contract – or similar variations such as federal contribution agreements – is certainly not new in Canada, however, the scale of their use today is new. Josephine Rekart, in a study of social service agencies in British Columbia, found that the use of contracts more than doubled between 1982 and 1989, displacing grant income (Rekart, 1993).[12] Similarly, Reed and Howe find greater reliance on contracts (or purchase-of-service agreements) than on grants in their Ontario study (Reed and Howe, 1999a).[13]

Garth Nowland-Foreman, writing about New Zealand, outlines what he calls "funding technologies" that change over time:

1. donations to worthwhile organizations (list approach);
2. program grants in response to submissions (submission model);
3. program grants allocated on the basis of some form of service planning (needs-based planning);
4. tendering for contracts to undertake specified services (purchase-of-service contracting); and
5. funding to individuals to purchase services from accredited providers (vouchers) or the markets (cash allowances) (Nowland-Foreman, 1998: 113).

This continuum of funding mechanisms helps put the debate about contract funding into perspective. Nowland-Foreman argues that each mechanism offers advantages and disadvantages from the perspective of both funder and recipient. Private donors are certainly at liberty to choose worthy organizations to support. Problems arise, however, when governments or other public funding bodies such as foundations behave like private donors. Competition for grants addresses the problems related to discretion, which is the hallmark of the donation model; it ensures due process and greater fairness to organizations – particularly new groups – appealing for funds. But it may not be the best way to determine the greatest need. Thus, needs-based regimes evolved particularly in areas such as health and social services. These funding models identified and supported many emerging social issues, such as women's shelters, community development organizations and social housing through the 1970s and 1980s in Canada. However, as Nowland-Foreman points out, it is only a small step between a needs-based funding regime to one where the same funders identify and define the types of service responses that they consider most appropriate – the dominant funding model today. Funders are moving beyond their role as project developers to "arms-length" purchasers of service.

Not all nonprofit and voluntary organizations will follow this sequence outlined by Nowland-Foreman. Indeed, organizations – individually and within their various fields – may rely on a number of these funding mechanisms at any one time. Arts organizations, for example, still have access to very important granting agencies. But it is fair to say, supported by evidence gathered for this report, that there is a critical shift underway and gathering momentum around contractual funding. Far from reducing the presence of government or other funders in the activities of the nonprofit and voluntary sector, "contracting in" extends greater control and administrative oversight (Smith and Lipsky, 1993).[14]

Certainly, focus group participants agreed that appropriate controls over the allocation and expenditure of funds were absolutely necessary. Accountability – to funders, members, clients and beneficiaries – was considered essential to the success of any organization. Groups did not question the need for effective accountability mechanisms. They did, however, question the disproportionate emphasis on accountability to funders – increasingly at the expense of accountability to organizational members and the people they serve – through onerous and time-consuming administrative and programmatic conditions. The prohibition of moving funds between one item in a project and another as the project evolves was just one of countless examples of funders becoming increasingly involved in the day-to-day operations of nonprofit and voluntary groups, while maintaining an artificial distance through the contract mechanism. Other examples included: requests for staff salary records and time sheets; setting out the educational requirements of program staff in program contracts; insisting on separate program or project accounting systems; and requiring specific types of acknowledgement (i.e., displaying the corporate logo of the program funder in the offices of the recipient organization). Jennifer Wolsh has likened this process to the creation of a "shadow state" – "autonomous" nonprofit and voluntary sector organizations may be on the front line, but funders are calling the shots behind the scenes (Wolsh, 1990).

We will take up the question of accountability in greater detail below. Suffice to say at this point that it is the nature and weight of contractual requirements – more often than not, established without input from nonprofit and voluntary organizations – that are challenging the ability of nonprofit and voluntary organizations to define and react to the unique needs of their community, and that create a divide in the sector between organizations that are able to operate with the confines of this emerging contracting regime and those that cannot. The one-sided nature of contractual arrangements between organizations and their funders is a source of huge frustration. The impact of project or program funding may well assist selected nonprofit and voluntary organizations to become successful – inexpensive – businesses and/or contractors. It is debatable whether these same organizations will achieve the same success in carrying out their role as nonprofit and voluntary organizations – a role that is purportedly valued and respected by funders themselves.

### 2 (c) At the same time, funders are providing funding for shorter periods of time. The funding that is available is increasingly unpredictable.

> "There are dollars out there that we're not going after because we don't have the resources to go after them but also because we can't even use them in the time periods that are actually required" (FG: CS-N).

Above, we discussed the implications of shifting from a core funding model to one that is project-based. Under the emerging funding regime, dollars are increasingly tied to discrete projects, and organizations are prohibited from using project dollars to cover their essential administrative functions. Moreover, there are more terms and conditions on the receipt and expenditures of funds than in the past, extending the control of funders still further into the day-to-day operations of the organization. Lastly, the shift to project-based funding has also been associated with shorter funding time frames and greater unpredictability regarding initial project funding – that is, whether a project will be funded or not and at what level – and its subsequent renewal.

There are many patterns of funding evident under a project-based funding model. For instance, an organization can be reliant on one project or many; they can be fairly certain of contract renewal under purchase-of-service agreements or locked in a cycle of short-term contracts. Our own typology of funding profiles, discussed in the next chapter, outlines the diversity of arrangements available among the organizations surveyed. Yet regardless of funding pattern, they all expressed concerns about the inherent instability of the project funding model. Project funding typically does not come with guarantees of renewal. More often than not, funding is awarded for a specified period of time, usually with the proviso to seek alternative sources to sustain the program over time. Even as an organization gears up to deliver new services or programs, or to mount another season of theatre, for example, it has to be looking down the road – a few months, or perhaps a year – for new sources of support. Nonprofit and voluntary organizations cannot afford to focus on the present; their survival depends on being ever forward-looking.

The stress introduced with this funding model, especially for organizations reliant on a single source of funding, affects virtually every aspect of the organization. First and foremost, there is the fear that the organization will shut down when the project funding comes to an end. Certainly, many organizations in our focus groups spoke about organizations they knew had closed when alternative funding sources could not be located. Others spoke about scaling back services or programs – often despite demonstrated community need – due to cuts in funding from one or more funders. As a result, energy is continually diverted from program activities as managers attempt to "[attract] new projects, [to roll] completed projects into new ones, or [to convince] funders to extend existing projects" (Brown and Troutt, 2000: 9-10). The shorter the funding term, the more intense this cycle of activity becomes, creating higher levels of stress, diverting even greater amounts of time away from the basic work of the nonprofit and voluntary organization.

Living on project funding is a very fractured and stressful existence for all involved. The short-term nature of project funding simply creates insurmountable barriers. There are serious implications for staff and volunteers, including increased workloads related to seeking out, applying for, and administering project funding, as well as the stresses related to staffing up and staffing down projects. There are also critical impacts for clients or beneficiaries. Many groups spoke about the difficulties related to initiating a much needed program, only to have the project funding discontinued. Project funding is a "stop-go" funding mechanism that wreaks havoc with community expectations and needs. The constant churning of short-term projects seriously undermines the ability of the organization to meet day-to-day responsibilities and to plan for the future. Ideally, nonprofit and voluntary organizations attempt to seek out longer-term funding arrangements for activities central to their mission. Yet these types of funding opportunities are few and far between. It has come to the point when many focus group participants indicated that they would rather scale back their activity than take on short-term project funding, even if funding is available for an activity that would clearly benefit the organization and the community.

### 3. Reporting requirements have also increased with the shift to project-based, contract funding and as part of new thinking about accountability and efficiency.

> "There are contradictions between accountability to your funder and the great deal of energy it takes that distracts from accountability to your beneficiaries" (FG: CS-N).

All of the focus group participants commented about the increase in reporting requirements that has accompanied the shift to a project-based funding model. Not only was the process for securing funding more onerous and complicated, reporting on the progress of selected activities and on the expenditure of allocated funds has increased as well. Fulfilling such reporting requirements is now one of the key terms and conditions of both private and public sector funders. The work involved in producing program and financial reports to various funders can impose a high burden on nonprofit and voluntary organizations that often struggle to meet these funding requirements with few resources – either financial or professional – to commit to the task.

The increase in reporting demands is part of a broader process of rethinking organizational accountability and efficiency. Whether you are a soccer club, choral group or centre for newcomers, nonprofit and voluntary organizations are being asked by funders and the general public to demonstrate the effectiveness of their programs and the efficiency of the organization itself as the "delivery agent." This trend is tied into the shift to a more competitive, contract-based funding regime, one that has had an enormous impact on the nonprofit and voluntary sector, not just in terms of the physical work involved in producing numerous and weighty reports for competing funders, but also through the imposition of a new accountability/ management model that influences all aspects of the organization.

Concerns with the accountability of nonprofit and voluntary organizations have followed fast on the heels of concerns about public accountability more generally. The nonprofit and voluntary sector has been swept up in efforts to "reinvent" government. It was a short step from governments reinventing themselves to demands that nonprofit and voluntary organizations should likewise reinvent themselves. The shift to "outcomes" thinking has been generally welcomed in the nonprofit and voluntary sector. The issue at hand, however, is *how* "outcomes" thinking has been manifested through concrete accountability mechanisms. It is no coincidence that funders have embraced project-based funding to introduce more extensive monitoring and evaluation in the pursuit of "value for money." The contract affords funders greater control over the work of an organization in the name of enhanced accountability by explicitly tying financial support to specified outcomes and establishing consequences for "non-compliance." Evidence gathered for this report suggests that the use of contract funding mechanisms has exacted a very high price on nonprofit and voluntary organizations, while adding little to what we know about the contribution of nonprofit and voluntary organizations generally or the success of individual organizations or initiatives in particular.

Nonprofit and voluntary sector organizations are constantly being accused of being "unaccountable." The charge is clearly false. All voluntary organizations are accountable to governments, funders, staff, members and volunteers, the media, partner organizations, and most certainly, beneficiaries. The problem for many nonprofit and voluntary sector organizations "is not a lack of accountability, but *balancing* accountabilities and keeping the ultimate impact of their work at the top of the agenda" (Smillie, 1999a: 21). And while nonprofit and voluntary organizations rightly claim that their primary accountability is to their beneficiaries, in reality, the greatest effort is now expended on reporting to funders.

The roots of this problem are complex. The experience of international development agencies is instructive in this regard, revealing the contradictions inherent in the new accountability regime.[15] During the last decade, there has been a push within international development toward address what has come to be known as "strengthening aid effectiveness" in response to a host of concerns, one of the most important being whether aid organizations have been, or are currently, effective in actually promoting development. This may seem an obvious focus of attention, yet until recently the scope of non-governmental organization (NGO) activity was relatively small. Aid was often as political as it was developmental. With a huge increase in the demand for aid dollars in the 1990s, and as importantly, the increasing reliance by governments on external organizations for the delivery of service, many are now questioning what had been accomplished in the first three "Decades of Development" in order to point the way ahead.

Concerns about aid effectiveness have been raised in Canada as well, at the Canadian International Development Agency (CIDA). In a highly influential 1993 report, the federal Auditor General was very critical of the management and accountability frameworks used by CIDA to assess the impact of international assistance programming. In response to the Auditor's Report, CIDA began to develop new models of management and accountability in keeping with the "reinventing government" approach being promoted in the United States at the time.[16] In 1996, CIDA adopted its own policy on "Results-Based Management" (RBM) which is still in use today. The policy framework states that:

> Results-based management is integral to the Agency's management philosophy and practice. CIDA will systematically focus on results to ensure that it employs management practices which optimize value for money and the prudent use of its human and financial resources. CIDA will report on its results in order to inform Parliament and Canadians of its development achievements.[17]

Thus, the primary focus of the framework is to identify the "results" or "outcomes" of development programming, that is, "describable or measurable change[s] resulting from a cause-and-effect relationship." To this end, CIDA states that it will:

- define realistic expected results, based on appropriate analyses;
- clearly identify program beneficiaries and design programs to meet their needs;
- monitor progress towards results and resources consumed, with the use of appropriate indicators;

- identify and manage risks, while bearing in mind expected results and the necessary resources;
- increase knowledge by learning lessons and integrate them into decisions; and
- report on results achieved and the resources involved.

In theory, the goal of results-based management is to learn from the past in order to be successful in the future.

Initially, Canadian development organizations were positive about the new focus on results and evaluation embodied in CIDA's results-based management framework. However, the way in which CIDA has implemented results-based management, despite piloting RBM in different countries before adopting it wholeheartedly, has posed difficulties for Canadian organizations attempting to understand and operate within the confines of the new framework.[18] These difficulties arise from the inherent contradiction embedded in results-based management between its function as an accountability system and its function as a management improvement system. In the absence of a clear understanding of how to measure success or failure, coupled with the demands on funders to answer to their own stakeholders (in this instance, to Parliament and thus Canadians), the overarching goal of results-based management is compromised, as funders attempt to exert greater control over contracting organizations through increased monitoring and verification activities. The critical boundary between evaluation and monitoring is thus broken down, resulting in what Michael Power has called an "audit explosion" (Power, 1994: 34, cited in Smillie, 1999a: 31).

The experience of international development organizations dealing with the audit explosion is similar across nonprofit and voluntary groups. Participants in the focus groups spoke about two interrelated concerns with the implementation of results-based management and accountability systems: issues touching process and content. First, while supporting the goal of enhanced accountability to all stakeholders, nonprofit and voluntary organizations expressed extreme frustration with the intensity of funder scrutiny. Many spoke about increasingly intrusive program officers calling throughout a project, asking about lunch receipts for a meeting, or whether the receptionist at the organization was actually contributing to the project in a meaningful way. They understood – and supported – the move of funders, and governments in particular, to establish and link standards to project contracts to guide program delivery. Yet they drew a line at what many described as the direct challenge to their authority to conduct the program or project independently – all in the name of enhanced accountability.

Of equal importance were frustrations related to attempts to successfully balance competing reporting requirements of various funding programs. Stress was particularly high where organizations were struggling to fill out different performance and financial reports for different funders, at different times. Not only were reporting formats and schedules inconsistent – even for the same funder – many groups also complained that there was no real sense of proportionality in reporting. "One-size-fits-all accountability is what it is" (FG: E). Small organizations with contracts worth $10,000 were required to provide the same kind of information as organizations with contracts worth a million dollars. (Organizations also reported frustration with the application process, again where applications for relatively small sums of money required the same level of documentation as applications for much larger amounts.) This problem was compounded by the perception that funders simply didn't care about the organizations' other responsibilities and obligations as long as their reports were submitted on time.

The second concern was about what exactly government and other funders were actually monitoring. Results-based management is intended to shift the focus from thinking about outputs to considering outcomes (medium-term) and impacts (long-term). The central idea is to identify a direct causal relationship between individual projects or programs and the resultant change over time. But how to do so? First, there is the problem of focusing on "the project," a problem that has emerged with the large-scale shift to a project funding model. "In return for clear aims and objectives and a discrete set of inputs – money, technical assistance, equipment – the implementer expects to achieve clear, quantifiable results within a designated period of time" (Smillie, 1999a: 29). But projects don't exist in isolation and project activities aren't always reducible to discrete measurable units. Certainly, project "outcomes" are not always immediately evident within the timeframes set out in funding agreements.

Thus, nonprofit and voluntary organizations and funders are caught up in an exercise of quantifying results. This difficulty is especially acute in social services and the like, where measuring social development outcomes can be very difficult. In Reed and Howe's study of social service agencies in Ontario, they noted that many executive directors were frustrated.

> Most ... did not object to the time expended as much as to the nature of the performance measures which were increasingly being demanded. Most Directors told us that they found the measures and records which were called for were very much of an accounting nature. While they recognize and support the importance of maintaining standards of accountability to the pubic in terms of dollars spent, many felt that other elements of their services and of clients' needs also warranted measurement and study. Executive Directors maintained that the data, reduced to 'units' and costs, told little about their agency's true effectiveness in addressing clients' needs. Executive Directors spoke of the widget model and of the frustration of being forced to consider treatment units as comparable which they believe are not comparable. In spite of all the record-keeping and reporting, some feel that governments and other funders are not getting the real information that is needed to gauge effectiveness. (Reed and Howe, 1999: 36-37)

One participant in our environment focus group expressed the same frustration: "I see it as the government having adopted a commerce model where groups are having to prove their market relevance all the time – so you are not justifying yourself in terms of output or quality – but by simple denominators of dollars or numbers of people – which are crude indicators" (FG: E). To summarize, evaluation is reduced to project monitoring, which in turn, focuses disproportionately on project expenditures and achieving cost efficiencies – not project outcomes.

Ian Smillie makes the point that measuring social development or sustainability or social capital or community involvement in no mean feat (Smillie, 1999a: 23). It is not surprising that the very difficulty in quantifying these kinds of results under a results-based management framework has tended to force funders to push for even greater reporting at the project level. Looking at the experience of development organizations, the Canadian Council for International Cooperation has argued that RBM is "submerging strategic goals for many CSOs [civil society organizations] in a maze of artificial and reductionist identification of 'results'."[19] The elevation of monitoring and verification creates an "audit/accountability mentality" concerned with outputs and "fault finding rather than being forward looking."[20]

Focus group participants from various fields of the nonprofit and voluntary sector all raised concerns about monitoring and evaluation. Despite the rhetoric of the results-based management framework, very little evaluation is actually being done in the sector – either on the part of funders or, as importantly, on the part of the organizations themselves.[21] This is a real problem. Many organizations are cautious, even resistant, about evaluation of any kind.[22] They fear, with some justification, that evaluations done will not be used to improve their service, but rather will serve as a rationale for funding cuts. The organizational profile presented in Chapter 7 clearly demonstrates the consequences of failing to meet expectations set out in a performance contract. This organization lost a significant portion of its funding because it was unable to meet an outcome measure that it had been asked to identify at the beginning of an innovative project. The organization was not allowed to transfer funds to more promising areas of the project, and staff were laid off. Long-term outcomes were sacrificed because the groups was not able to meet the strict terms set out in its contract.

It would be one thing if failure for taking risks in implementing a new service or program was tolerated. But focus group participants report that funders today – despite the rhetoric about the importance of innovation – are very unwilling to take risks or to tolerate failure. "Overall, we see much less risk-taking, groups are stripped right back as all money is devoted to programs and productions" (FG: A). Moreover, there is little if any support for organizations actually carrying out any type of evaluation. These types of "non-program" costs are regularly disallowed under available project funding programs. You have a situation in which groups are locked into an often intense competition for funds from the public and institutional donors. To win attention, organizations feel compelled to promise potential funders the sun and the moon in terms of project outcomes, only to run into trouble down the road when they cannot meet unrealistic expectations. According to Smillie:

> The great expectation system is endemic in the financing of NGOs throughout the OECD member countries. It creates a barrier between NGOs and the individuals and institutions that support them. It promises results that cannot be delivered, it buries problems, curtails any serious learning from failure, and can turn whatever evaluation there is into an adversarial control mechanism, rather than one that might promote better social development. It is, in fact, self-defeating. (Smillie, 1999a: 28)

Smillie is talking about international development organizations and the barriers that the current results-based management frameworks represent as they have been implemented in Canada and elsewhere. He could just as well be talking about the nonprofit and voluntary organizations that participated in our study. The almost exclusive focus on monitoring – in place of mutual evaluation efforts – seriously compromises the accountability of nonprofit and voluntary sector organizations to all of their constituencies and works to erode the capacity of organizations to meet mission.

## 4. Funders are increasing their emphasis on "partnerships," both in their requests for proposals and their choice of funding mechanisms.

### 4 (a) Project Partners

> "Building community is no longer seen as an important goal – the whole emphasis on partnership is leading to 'friendraising' " (FG: A).

The introduction and proliferation of the project funding model is tied to a number of trends that define the emerging funding regime. One that has received a good deal of attention recently is the whole theme of "partnerships." Increasingly, public and private funders are encouraging nonprofit and voluntary groups to form partnerships or coalitions to advance their work. Nonprofit and voluntary groups have always worked with a variety of partners – including community representatives, other nonprofit and voluntary organizations, local businesses and funders – to develop and implement programs. As well, nonprofit and voluntary organizations have a long history of joint advocacy, working with various communities of interest to promote change, such as alleviating child poverty or expanding public support for the arts. What is new is the call by funders to submit joint funding proposals in an increasingly wide range of areas.

Focus group participants were of two minds about this trend towards project partnerships. Most were very positive about the potential for partnerships and said they were currently involved in a host of partnerships, such as referring clients to other service providers, for example, or working with other community groups to raise funds for local conservation initiatives, or providing music workshops in local schools. There were other examples of partnership at work as well. One national organization provided space at a nominal fee to a smaller local group with limited resources. Another actually sought out funding on behalf of smaller groups that did not have the same capacity to secure funding. Another shared administrative supports with arts organizations located in the same building. Sports groups came together to set up their own charitable foundation to assist individual organizations with their fundraising. These examples show the sector's willingness to partner. Indeed, partnership has been a defining feature of the nonprofit and nonprofit and voluntary sector, as each organization calls upon the support and energy of a number of partners to realize their mission.

Many nonprofit and voluntary groups, however, were worried about the recent trend of funders to impose partnerships on the sector. From the funder's perspective, partnerships make sense on a number of levels. First, there is the belief that partnerships are the most effective way of developing and implementing programs and services to meet the needs of the community. Funders want to ensure that projects are well connected to their communities and that all the interested parties are brought together around the same table. The idea is to create critical mass behind a project, in order to enhance the likelihood of good project outcomes. There are other considerations at play as well. Insisting on partnership is a useful way for funders to manage the proliferation of demands for funding coming from the sector and to spread the available funds more broadly across a range of organizations. At the same time, insisting on partnerships narrows the number of demands for the time and resources of funders.

As stated earlier, nonprofit and voluntary sector groups are used to working in partnerships, but there is a critical difference between the examples noted above and this new emphasis from funders on partnering. In the first case, organizations are willingly choosing to forge partnerships to pursue their goals and objectives; in the second, partnership is imposed. Focus group members made the point that partnering simply wasn't efficient or effective in all cases. This was particularly true when the scale of project funding was relatively small. In addition, considerable time and resources are needed to establish and sustain successful partnerships – everything from agreeing on the division of responsibilities, to the resource commitments in terms of staff, space and equipment, to decision-making and conflict resolution processes. Organizations are expected to undertake this work, drawing on their own financial and human resources. Funding is rarely available to develop and sustain program partnerships. One group noted that a great deal of time and energy was necessary to initially establish partnerships with selected organizations, but once the details were worked out, it was easier to craft project proposals as new funding opportunities arose. The key, this executive director said, was building trust with potential project partners over time, and through a variety of forums. Problems arise when partnering is forced or imposed by the funder; potential benefits are lost for program users as well as for participating groups.

In an increasingly competitive funding environment, partnership can become another funding hurdle as groups seek out "paper" partners to meet the terms of the funding competition. Ethnocultural organizations complained about this in particular. In the absence of supports to foster and sustain partnerships, organizations don't always have the time to develop the trust necessary in order to create truly effective programming. Within the project funding model, there is little room for this kind of developmental work. In effect, it privileges groups with established connections over newer organizations, often working in newer fields.

Moreover, the increasingly competitive funding environment can work against developing these types of relationships because groups may be reluctant to cooperate with their competitors. Focus group participants varied in their responses on this point. Participants from Nova Scotia emphasized that competition was not an issue for them in their rural community. Partnership was a key organizing strategy because there were comparatively few nonprofit and voluntary groups in the area; working in partnership helped to bridge the gaps. This wasn't true, however, for social service, environmental, or arts and cultural groups, whose representatives spoke about the sometimes corrosive impact of competition on partnerships in their various fields. As with accountability, what may well look good in theory can be undone in practice.

### 4 (b) Matching Contribution Funding

> "Everyone wants to be the last in – it is seen as the best spot. Funders want to leverage but not be leveraged." (Key informant)

The other dimension of partnership that demands attention is the increasing requirement by funders that nonprofit and voluntary sector organizations applying for project support seek out multiple funding sources under matching funding agreements. Matching funding agreements are mechanisms designed to provide a portion of the funds necessary to mount a project. These mechanisms are not new. CIDA, for example, has used matching grants to fund international development organizations since the 1960s. Development organizations were encouraged to approach CIDA with program proposals for matching funds. CIDA, in turn, would provide a portion of funding, the level of which was determined by the content and location of the project. The Canadian Partnership Branch, NGO Division, still uses matching grants; indeed, it remains the most common funding vehicle for Canadian NGOs reliant on government funding. Similarly, Environment Canada uses matching contribution funding under its EcoAction Funding Program, the most important federal funding window for environmental organizations. The program clearly stipulates that the federal government will only provide up to 50 per cent of the project costs. The expectation of funders is that the nonprofit and voluntary organizations will seek out the additional resources necessary – both financial and in-kind – to realize the project objectives.

What is new is that matching contribution agreements are becoming more common across the nonprofit and voluntary sector. They are a key part of the broader trend towards "partnership" being emphasized by both public and private sector funders. The idea is to line up a number of potential funders. In some instances, a lead funder commits to support the project with a specific contribution. One or more groups use this initial contribution to leverage additional support – either financial or in-kind. In other instances, groups are asked to line up all of the project partners in advance of making an application for a matching contribution from a public or private funder.

Overall, focus group participants viewed the increase in these types of funding arrangements with ambivalence. Most agreed that "collaboration and partnerships with other stakeholders is advantageous and can yield some excellent work" (#21). Yet the amount of work involved in putting funding packages together, and the instability of these arrangements, can pose real problems for voluntary organizations. As one participant stated, "This approach is great as long as there is one who funds for 60% at least, otherwise it is timely and lacks security" (#31).

Participants in matching funding arrangements have likened the experience to building a house of cards. The requirement to build a partnership in support of a funding application is positive. These partnerships can foster community engagement in endeavours such as environmental preservation. Many smaller contributions can result in a project or program with far-reaching impact. From the funders' perspective, they see the positive value of spreading limited dollars across a broader range of groups and issues. Yet like any house of cards, the structure is inherently fragile. If one card is shifted or removed, the house can come tumbling down. This is especially true in situations where funders – often governments – require that organizations applying for funds have all of the development work done "up front," that is to say, all of the other contributions of cash, time or materials have to be committed before a matching contribution is considered. The burden on nonprofit and voluntary organizations, especially the small groups, to line up partners, cash sponsors and in-kind donations is huge, not to mention the time and complexity involved in managing these types of projects. This requirement, in effect, works against the promise of matching funding arrangements: that is, the power of leveraging. While the promise of funding may leverage project support, it can certainly not be considered as a "sure thing." And the lead time involved in developing the partnerships and contributions can be a real problem if a corporate partner, for instance, pulls out because of time delays. And without a firm commitment from a primary funder, it is difficult to get others to commit. There is a real sense, reported across the many focus groups, that each funder wants to be the last in: "no one wants to be first to the table" (#3).

In sum, matching contribution agreements can provide an opportunity to encourage partnerships and community involvement. But they can and do work to undermine the efforts of nonprofit and voluntary organizations. As a result of the structure of these funding programs, groups are not able to commit to continuing programs and services for people, and they cannot provide consistency in staffing. A great deal of energy – largely unpaid labour – is diverted into building and maintaining the partnerships, rather than being channelled into the delivery of programs. As a result, "the organization exists for projects, not mission" (#22).

Matching funding is all about leveraging and spreading the risk of project financing among potential project supporters. For nonprofit and voluntary groups, however, the protection afforded by multiple income sources and the benefits of working with diverse stakeholders is undermined by the risks and demands associated with managing complex projects of this type. One focus group participant concluded: "We have successfully developed a multi-stakeholder, multi-funder approach to projects and programs. This has helped lever funding, broaden the audiences for our work, strengthen critical review of our reports, and preserve independence for sole-source funders. At the same time, it is a very demanding model to run and we could really use more core funding" (#24).

### 5. Some things don't change. Nonprofit and voluntary organizations continue to be seen as largely "voluntary" operations.

> "We are taken for granted. Do they think we are all selfless miracle workers?" (FG: SS/E)

In considering what is new about the relationship between the nonprofit and voluntary sector and its funders, it is also important to consider what hasn't changed. One of the constants, as reported by many focus group participants, was the sense that nonprofit and voluntary organizations continue to be viewed as largely "voluntary," that is, primarily reliant on volunteer labour and contributions of members. These assumptions are an example of what many felt was a profound disconnect between nonprofit and voluntary groups and their funders.

Once dubbed "the invisible sector" (Hall, 1997: 74), one only has to consider the extent of the nonprofit and voluntary sector's involvement in the delivery of public services, ranging from social and health services to arts and recreation, to appreciate how central voluntary organizations have become in the lives of Canadians. The nonprofit and voluntary sector has expanded considerably over the past decade, according to available statistical evidence. Greater formalization, bureaucratization and standardization within the sector is evident as groups have evolved over time from grassroots organizations, drawing largely on volunteer labour, to established, professional organizations. Nonprofit and voluntary sector organizations have responded to the call to become "more professional," to do more evaluation, to work more with the private sector, to do more capacity-building, … to become more transparent, to learn more and disseminate more findings, … to become more financially independent" (Smillie, 1999a: 14) – all demands that have intensified under contract funding.

Yet the notion persists that nonprofit and voluntary groups should be running hockey leagues, teaching French to newcomers, or advocating for the rights of persons with disabilities in the spirit of voluntarism and commitment that characterized nonprofit and voluntary activity decades ago. Nonprofit and voluntary sector activity is still largely seen as "voluntary" despite the changing character of the groups themselves and the emergence of new funding relationships. Many focus group participants spoke about the pervasive myth that there is an army of volunteers and well-wishers, with in-kind contributions in hand, supporting and sustaining nonprofit and voluntary sector activity in Canada. This myth compounds the difficulty of securing adequate funding to sustain the work of the organization as a whole.

The myth of voluntarism challenges the sustainability of organizations in many ways. The issue of overhead and administrative costs is a case in point. As we discussed earlier, funders have been very reluctant to negotiate funding for non-program costs that are critical to an organization's ability to meet its responsibilities. There is a residual notion – clearly evident in matching contribution agreements – that organizations should at least be contributing their basic overhead costs to project implementation in the form of in-kind contributions. Similarly, nonprofit and voluntary organizations are expected to provide services at a lower rate than those of comparable private sector firms. This again is due in part to the perception by funders – and the general public – that there is a ready supply of volunteers available to carry out this important work for no compensation, that nonprofit and voluntary groups enjoy a cost advantage over other types of providers. The rationale is that if there are volunteers available to do work for an organization or specific project, it is not necessary to allocate funds to such tasks or to fund the group or project in its entirety. Volunteers and community goodwill are the key resources that nonprofit and voluntary groups bring to the table. Hence, it is not necessary to fund services or programs at a level equivalent to "market value." Indeed, by limiting contributions to projects or groups, the thinking goes, organizations are able to leverage additional financial and in-kind support, and thus generate broader commitment behind their cause. Succinctly stated, voluntary contributions – real or imagined – justify chronic underfunding.

This view is based on the erroneous assumption that there is a vast pool of financially secure, married women, living in male breadwinner families, who can undertake good works in the community. It is a 1950s view that did not reflect the reality of the 1950s, and certainly does not reflect the reality of the early 21st century.[23] One commentator in the arts community went so far as to say that it has been a real stumbling block in developing effective management in the sector. In this instance, he argued, it is cultural organizations that continue to pin their hopes on the charitable impulses of well-heeled patrons.

As well, focus group participants stressed the increasing difficulty in securing in-kind contributions – another sign of highly competitive times. There are no good estimates of in-kind support for nonprofit and voluntary groups in Canada due to the difficulty in assigning a dollar value to these types of contributions.[24] Certainly, groups spoke about a wide range of supports for their day-to-day operations and fundraising efforts, including: equipment and supplies; advertising; the use of space; subsidies of various kinds; and professional services such as accounting or consulting. Some businesses donate staff time to organizations to carry out specific activities (i.e., Days of Caring); others provide services like internet access for the organization and its clients. Still others subsidize the salary and benefits of their employees working on secondment with nonprofit and voluntary groups. In the zero-sum world of nonprofit and voluntary sector financing, in-kind contributions can and do make the difference for organizations in successfully pursuing mission. But it is also a form of organizational support that can be very unstable, reflecting the ups and downs of the economy as well as the charitable impulses of potential donors and volunteers. Higher charges for meeting spaces and sports facilities, for example, have hit the sport and recreation sector particularly hard. From the perspective of nonprofit and voluntary groups, in-kind contributions in no way take the place of secure funding. There are no secret stores of in-kind support. Organizations will try to do less with less. Lack of stable, core funding is the issue.

### 6. The model of the competitive market increasingly influences the structure and activities of nonprofit and voluntary organizations.

> "The pressure to become market-oriented is relentless. Society seems to expect all of its citizens to become self-sufficient participants in the labour market and all of the organizations in the voluntary sector to become self-sufficient participants in the fundraising marketplace." (FG: CS-N)

The emerging funding regime is organized around a number of key themes. Certainly, accountability and efficiency are central, as we have discussed above. So too are the ideas of competition and self-sufficiency, ideas embodied in the model of the private marketplace. Increasingly, nonprofit and voluntary organizations find themselves in competition for all manner of resources, from financial resources to in-kind donations, to public support. Within this context, organizations are called upon to act more like "businesses," to be self-sufficient, keep their eye firmly on the financial bottom line, to be nimble and lean. The language of the competitive marketplace is now pervasive, influencing all aspects of the nonprofit and voluntary sector, and in particular, the ways in which value and success are defined and measured (Hossli, 2001). An increasingly competitive funding environment is transforming the "calculus of sustainability."

Organizations engaged in commercial activity provide the clearest evidence of this trend towards greater commercialization and competition. Within these organizations, the impact of commercialization – defined as "the mode of thinking derived from for-profit businesses" (Dart and Zimmerman, 2000: 145) – is widespread, according to the findings of a study of charitable commercial ventures. According to researchers, there is no rigid dichotomy between nonprofit/ for-profit or commercial/ charitable modes of organizing. Rather, commercialization touches all aspects of the organization. At the same time, the researchers found that the sources or origins of commercialization did not exclusively stem from the presence of commercial activities. In several instances, the nonprofit, mission-based programs seemed more commercialized than the nonprofit enterprise activities themselves. In one example, a counselling organization, under the direction of a new executive director, adopted a "brief therapy" model for its clinical services programs, resulting in productivity gains and other administrative efficiencies. These changes did not spring from the introduction of new commercial activities, but were related to public sector funding cuts, changes in social work practice, and more broadly, the application of a "commercial mindset" to the organization of social services. The introduction of commercial activities, in effect, served to reinforce the forces of commercialization already at work in this particular organization.

Pressures to become more "business-like" both in the operations of nonprofit and voluntary organizations and the pursuit of financial resources is also reflected in and reinforced through growing competition for human and financial resources. Competition is not a new theme for the nonprofit and voluntary sector. In the past, groups were certainly in competition for donations and in-kind supports, although generally various organizations or subsectors tended to draw unique bases of support. Today, reduced levels of funding from public and private funders throughout the 1990s and increased demands for programs and services, as well as changes in the types of funding available have led to a more intense competition for funds with other nonprofit and voluntary organizations, and more recently, with other governments or para-public institutions such as hospitals, municipalities or public foundations. Some nonprofit and voluntary sector groups are now competing with for-profit service providers as well, adopting the modes of operation of the organizations against which they have been forced to compete (Tindale and MacLachlan, 2001).

Competition takes many forms in the lives of nonprofit and voluntary sector organizations today. The competition for dollars and human resources – and ultimately, public support – is not new. What is new, many focus groups participants noted, is the intensity of the competition and the pressure to adopt "market" models of operation. On the one hand, participants argued that these pressures and expectations represent the failure of the public and funders to understand the difficulties that nonprofit and voluntary sector organizations face in pursuing their respective missions. Not all organizations have the ability to compete for dollars in the funding market place, nor to be self-supporting without recourse to government funding. On the other hand, there was a belief that the nonprofit and voluntary sector and the work that it does is taken for granted. All organizations were interested in being effective and efficient in their respective tasks. But many focus group participants believed that the expectation that all nonprofit and voluntary organizations can – or should – operate like lean and mean self-sufficient businesses obscured the unique value of nonprofit and voluntary programs and services. The language of self-sufficiency makes invisible the role of the nonprofit and voluntary sector in promoting active citizenship, caring for individuals and families, supporting economic and community development, and advocating on behalf of diverse communities and causes. "The right thing to do for society no longer seems to be the primary focus" (FG: E).

Generally, study participants had mixed opinions about the forces of commercialization at work in the sector.[25] Most were persuaded that nonprofit and voluntary organizations could learn a great deal from market models and principles of operation in their own efforts to become more efficient and responsive. Many organizations, however, were conscious of the dangers inherent in pursuing commercialization and increased competition within the nonprofit and voluntary sector. Writing about the United States, William Ryan comments that "the greatest peril is not that nonprofits may ultimately be driven out of the social service marketplace [from competition with for-profit firms]. Rather, the danger is that in their struggle to become more viable competitors, nonprofit organizations will be forced to compromise the very assets that made them so vital to society in the first place" (Ryan 1999: 126). Commercialization may yet prove to be a Faustian bargain in which the nonprofit and voluntary sector will lose its most desirable and distinctive features in the pursuit of the resources and funding sources necessary to realize their goals (Brooks, 2001: 168).

## Conclusion

Valerie Howe and Paul Reed summarize the pressures being brought to bear on the nonprofit and voluntary sector in Canada in the following passage. They argue:

> Many features of the voluntary sector situation today have existed for a very long time: the ever-present difficulty of insufficient resources; the heavy, seemingly ever-expanding

> workload and concern about unmet needs; the challenge of finding volunteers and utilising them effectively; the sense of organizational vulnerability. But there are elements in the situation today that appear to be distinctive: the shift from grants to contracts for services; the growth of inter-agency competition – for funds, volunteers and public support; the burden of responding to frequently-changing government policies and the increasing demands of funders for formal accountability; the growing concerns about liability; and fundamental changes in the social conditions within which voluntary organizations operate, such as increased social diversity, rising social and economic polarisation, and the growing incidence of multi-need individuals and families. (Reed and Howe, 1999a: 51)

Writing in the late 1990s from the vantage point of a more positive economy, Reed and Howe questioned whether their findings about the turbulence of the mid-90s revealed a sector in crisis, or just in transition. In response, we would argue that the pressures of Canada's emerging funding regime have certainly persisted and are affecting organizations today in profound and often contradictory ways. Taken together, these pressures have the potential to irrevocably influence the basic character and threaten the long-term sustainability of nonprofit and voluntary organizations. In the next three chapters, we look at the impact of the emerging funding regime, and the ways in which nonprofit and voluntary organizations are struggling to remain true to their mission.

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## Endnotes

[1] We conducted a content analysis of our focus group transcripts to identify key themes of the changing funding landscape. The following themes were identified and the proportion of responses for each theme is included in parentheses: competition pressures (20.7%); increased targeted funding (17.0%); increased terms and conditions of funding (14.8%); duration and predictability of funding (14.8%); shift away from core funding model to project-based funding model (14.0%); increased reporting requirements (9.6%); and partnerships (9.0%) (N = 458). Together, these themes define Canada's emerging funding regime.

[2] Throughout this report, we use quotations from the focus group participants and from the written surveys. The quotations from the focus groups are marked as "FG," followed by the group code. The list of focus group abbreviations is provided in the Methodology note in Appendix A. Quotations from the written surveys are referred to by the organizational number of each survey.

[3] The evolution of the Canadian government's relationship with development NGOs clearly illustrates this trend. In 1968, CIDA created the NGO Division within its Partnership Branch, which was responsible for funding NGOs directly. During these early days of CIDA involvement, funding for NGOs was provided on a "responsive basis." Canadian NGOs with their local partners in recipient countries were encouraged to present their project proposals to CIDA for matching funds. CIDA would then provide additional resources to projects and in certain cases, would provide higher levels of support depending on the individual project and its location. The budget for NGO division grew significantly for the next 15 years, as did the absorptive capacity of Canadian NGOs

and their ability to deliver programming in areas of the world where they had not previously been involved.

CIDA began to move away from "response programming" mechanisms in the early 1990s, as it faced its own human resource constraints in the 1990s and began to establish alternative mechanisms for funding Canadian NGOs. One avenue taken was to develop core funding programs for Canadian NGOs which it deemed to be eligible for ongoing institutional support. By 1992, 44 NGOs had program support and an additional 22 had project support. This move targeted a select group of NGOs for core funding, creating a significant divide in the NGO community.

Other funding mechanism alternatives were organized around CIDA's funding priorities. Within Partnership Branch, CIDA's Bilateral/Country Programs began to see the possibilities of contracting NGOs to implement projects within their own Country Development Frameworks. One advantage for Bilateral programs of using NGOs was that the contracting process for what were called 'Country Focus' projects could be done much more quickly than any other contracting mechanism. Initially, many of these projects were 'responsive' projects based upon proposals which fit into Bilateral Country Development Frameworks, but with the passing of time, CIDA began to more narrowly circumscribe funding priorities. Increasingly, projects started to fall outside the traditional mandate of NGOs and contributed to the view that "NGOs are for hire." (See Smillie 1999). In sum, there has been a slow but steady evolution away from NGO determined projects presented to CIDA for joint financing and towards projects which fit into individual Bilateral Program Country Development Frameworks and other funder-driven program areas. (This summary is taken from Christie Gombay, *Canadian Civil Society and CIDA: Whither Canadian NGOs?* Background Paper prepared for CCSD's "Funding Matters" project, July 2002.)

[4] Ian Smillie, "Canada," in *Stakeholders: Government – NGO Partnerships for International Development*, Ian Smillie and Henny Helmich (eds.), London: Earthscan Publications: 1999: 82.

[5] See Sylvia Bashevkin, "Losing Common Ground: Feminists, Conservatives and Public Policy in Canada during the Mulroney Years," in *Canadian Journal of Political Science*, 29(2), 1996, pp. 211-42.

[6] A clear example of targeting occurred under Program Review in 1994 and 1995. Through this process, the federal government applied four criteria in its evaluation of existing programming, criteria that clearly targeted nonprofit and voluntary organizations: larger public benefit; ability to access alternative funds; service provision as a priority over advocacy; and a match between group activities and government priorities (Cardozo, 1996: 317).

[7] Typically, nonprofit and voluntary organizations peg administrative fees at roughly 15% of a program or project budget. It is worth pointing out that this administrative fee pales in comparison to those charged by for-profit firms, which include a profit margin ranging up to 20% of the value of any contract.

[8] The assumption on the part of many funders would appear to be that most nonprofit and voluntary sector groups have a bottomless well of unrestricted funds that can be applied to overheads (Smillie, 1999: 12).

[10] One might well wonder why institutional donors such as governments or public funding

bodies are able to cover their own overheads from the original funding source, that is, the taxpayer, then refuse to cover legitimate costs of organizations that are delivering programs and services on the ground, often on their behalf.

[11] The book by David Osborne and Teb Gaebler, *Reinventing Government* (1993), has been credited with popularizing new ideas of governance and alternative service delivery.

[12] Looking at the 1980s, Rekart documents the large scale shift in the form of government funding for provincial social services. Whereas the level of funding remained relatively constant over the 1980s, the nature of government funding changed: of total agency funding, 52.2 percentage points came from provincial contracts in 1989, compared to just 39.4 percentage points in 1982 (Rekart, 1993: 68).

[13] Reed and Howe found that two-thirds of the Ontario social service agencies in their study lost revenues between 1992 and 1997, with median grant income falling by 25% (Howe and Reed, 1999a: 26).

[14] Steven Rathgeb Smith and Michael Lipsky make this argument in their important work, *Nonprofits for Hire: The Welfare State in the Age of Contracting* (1993). This book analyzes the large-scale trend of contracting out public services in the United States. They examine in detail the contractual mechanisms that are used to exert greater control over contracting parties, while distancing funders – government, in this case – from the results of programs and services.

[15] The following discussion is based on a background paper on international development organizations that was prepared by Christie Gombay for this current study, *Canadian Civil Society and CIDA: Whither Canadian NGOs?* July 2002.

[16] The United States Agency for International Development (USAID) became the first bilateral agency to develop a new management framework for dealing with its official development assistance, and the new management approach quickly spread to other bilateral and multilateral donors, including CIDA.

[17] CIDA. Results-based Management in CIDA. 1996. http://www.acdi-cida.gc.ca/cidapo-e.htm

[18] In their study of the Manitoba voluntary sector, Laura Brown and Elizabeth Troutt found that organizations welcomed new accountability measures introduced by government. The stress and tension related from increased accountability arose in situations where reporting requirements of various funders were not coordinated, where the reporting requirements were excessive, or they were not effective as an evaluative tool (Brown and Troutt, 2000: 25).

[19] CCIC. *Strengthening CIDA Partnerships with Canadian Civil Society Organizations,* CCIC/ CIDA Consultations, April 17 – 18, 2002. A CCIC Background Paper, page 7. Available at http://www.ccic.ca/devpolicy.htm.

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[20] OECD, Development Assistance Committee. *Results Based Management in the Development Co-operation Agencies: A Review of the Experience – Executive Summary*. Paris: November 2001: 16.

[21] The Voluntary Sector Evaluation Research Project (VSERP) has been launched to assess and address the evaluation needs of the nonprofit and voluntary sector in Canada. It is a three-year initiative to improve the capacity of voluntary organizations to evaluate their work and communicate their effectiveness to their funders, stakeholders and the public. The VSERP is a joint initiative of the Canadian Centre for Philanthropy, Carleton University, United Way/ Centraide Canada, YMCA Canada, Volunteer Canada, Max Bell Foundation, and CCAF Canada (formerly the Canadian Comprehensive Auditing Foundation). Project findings are expected to be released in 2003. See www.vserp.ca.

[22] Ian Smillie argues that fear of evaluation is endemic to international development groups. He argues that "by resisting urgent calls for evaluation over at least two decades, by mistaking simple monitoring and reporting for something more substantive, by dodging judgment and questions of impact, and by shrouding evaluations in a fog of complexity and jargon, NGOs have actually encouraged the onslaught of external evaluation, much of it the very sort they most fear." The critique of the standard, time-bound external evaluation is certainly partly right. But he believes that there is a much more serious problem at work in NGOs' fear of evaluation that threatens what NGOs have accomplished and places their independence in jeopardy. If groups don't engage in evaluation and honestly catalogue their successes and failures, they leave themselves open to the kinds of attacks by the media and by politicians such as John Bryden who are ready to challenge their importance at every turn. This problem is made no easier by external constraints, most notably the lack of any kind of support – financial or other support from funders – for organizations to carry out evaluations and to learn from their successes and failures.

[23] Overall, there has been a decline in the number of volunteer hours between 1997 and 2000. Many of the organizations surveyed relied on volunteers (see Chapter 5). However, respondents stressed that they faced considerable challenges in finding the volunteer labour that they needed, as well as the resources to use volunteers. Certainly, using volunteers in service or program delivery is not always an option.

[24] The *National Survey of Nonprofit and Voluntary Organizations*, expected in 2004, will provide estimates of in-kind contributions.

[25] Over half of social service groups, recreation, sports, arts and cultural organizations, and environmental groups viewed "commercialization" as positive, compared to health organizations, community benefit groups and organizations serving ethnocultural communities.

# Chapter 4: Financial Diversification and Volatility in the Nonprofit and Voluntary Sector

The funding landscape is changing across the nonprofit and voluntary sector. We see this in new funding structures and practices, the ideas and values of which are reflected in the everyday relationships between nonprofit and voluntary sector organizations and their funders. The emerging funding regime is not only affecting the capacity of organizations to generate and deploy financial resources – that is, their financial capacity – it is also affecting all facets of nonprofit and voluntary organizations and their pursuit of mission.

The next two chapters provide an overview of our study findings based on our focus group consultations with over 100 organizations and our in-depth written survey of 51 nonprofit and voluntary organizations. In this chapter, we examine the financial health of participating organizations in detail, as well as the size and scope of the organizations that participated in our study. These data provide the base for the discussion which follows looking at the impacts of the changing funding regime – embedded in changing types and forms of funding – on nonprofit and voluntary organizations and the ways in which they are responding.

Together, our quantitative and qualitative findings paint a complex picture of a sector struggling to cope with change. The emerging funding regime represents both opportunities and challenges for nonprofit and voluntary organizations. New ideas about the importance of outcome evaluations and partnerships have galvanized exciting new developments and collaborations. Greater self-sufficiency through new earned income opportunities holds the potential of financial gains for some organizations. At the same time, evidence gathered from our focus groups and written survey reveals that organizations are struggling with higher levels of financial uncertainty and volatility, even as they have sought – largely successfully – to diversify and augment their funding base. Arts organizations, groups serving ethnocultural communities, and employment centres are all struggling with similar issues, issues related to the changing sources and mechanisms of funding.

## 4.1 Participating Organizations: Who are they and what do they do?

In Chapter 2, we noted that there is no one definition of the nonprofit and voluntary sector. The boundaries between the nonprofit and voluntary sector, state and private market are very "fuzzy." One researcher has described the sector as "a loose and baggy monster" (Kendall and Knapp, 1995: 66). Moreover, the very diversity of the nonprofit and voluntary sector can be said to be its only definitive feature. Some organizations in a particular field of service (such as the arts for example) may well have more in common with government or business organizations in the same field than they do with other nonprofit and voluntary organizations in other areas of the sector. Understanding the experience of various subsectors is an important goal of this study. Is the impact of the growth in project funding, for example, the same in social services as in recreation and sport? Are large organizations better equipped to deal with financial insecurity?

However, as we noted earlier in this report, we did not look at all organizations in the nonprofit and voluntary sector. For the purposes of this study, we were interested in what Lester Salamon has called "public benefit organizations." These are organizations that "exist primarily to serve others, to provide goods and services (including information and advocacy) to those in need or otherwise to contribute to the general welfare" (Salamon, 1995: 54). (A more detailed description of our methodology is provided in Appendix A.)

We have excluded "funding agencies" such as the United Way and philanthropic foundations because, for the purposes of our study, these organizations have more in common with public and private sector funders than with nonprofit and voluntary organizations reliant on funding from these sorts of organizations. As well, we are excluding "member-serving organizations" such as the Canadian Medical Association, the Canadian Automobile Association and co-operatives. These groups, like business and labour groups and professional associations, are largely organized to pursue the interests of their members.

We have excluded "religious organizations" including those that pursue "essentially sacramental and religious functions" (Salamon, 1995: 54). While religious groups make up the largest single group of charitable organizations – an estimated 40.8% in 1999 (Sharpe, 2001: 18-19) – they rely extensively on a pool of private donors to finance their operations[1] and, in that sense, can be said to be member-serving organizations. These are not clear divisions. Certainly many religious organizations and unions, for example, are involved in "public benefit" work (See Handy and Cnaan, 2000; Hiemstra, January 1999). On the other hand, who can say that volunteers donating their time and energy on behalf of public benefit organizations are not self-interested. In surveys, volunteers state that one of the reasons they volunteer is to gain experience and community connections – or simply because it makes them feel good.[2] Thus, the distinction between public serving and member serving is not always clear. However, we have decided to exclude groups whose primary mission is to serve their members, and are heavily reliant on funding from members, in order to narrow the focus of our study to groups that might share the same types of opportunities and challenges in the pursuit and management of their financial resources.[3]

In addition, we have also excluded a select number of "public benefit organizations" – namely, universities and hospitals – which are transfer payment agencies almost exclusively reliant on government funding and regulation. The degree of control that governments exercise over these organizations raises questions about their independence and challenges their very inclusion in the nonprofit and voluntary sector. From our perspective, however, the biggest dilemma in including these groups in a funding study of nonprofit and voluntary organizations is that their size has been shown to skew the analysis of nonprofit and voluntary sector activity. Certainly, the scale of their fundraising activity dwarfs those of many other nonprofit and voluntary sector groups, as our portrait of the nonprofit and voluntary sector in the Appendix reveals.

It is also important to note that we have focussed largely on "formal" nonprofit and voluntary organizations. These are groups that have an "institutional" presence: they tend to be incorporated (96.0% of our survey respondents are incorporated; N=50), have established governance structures, and employ at least one paid staff. As such, they are good candidates to include in our study to explore the current dynamics of funding. This means that the true "grassroots" groups have not been included in the study. These groups rely almost exclusively on volunteer labour, do not tend to be incorporated, and typically have limited financial resources.[4] One author has described these grassroots groups as the "dark matter ignored in prevailing 'Flat Earth' maps of the sector." He estimates that the number of grassroots associations in the United States is roughly 30 per 1,000 population (Smith, 1997). In Canada that would result in a count of 940,000 grassroots associations.

Certainly, many grassroots groups face the same types of struggles over funding that are documented in our study, but care should be taken in drawing broad conclusions about the nonprofit and voluntary sector as a whole.

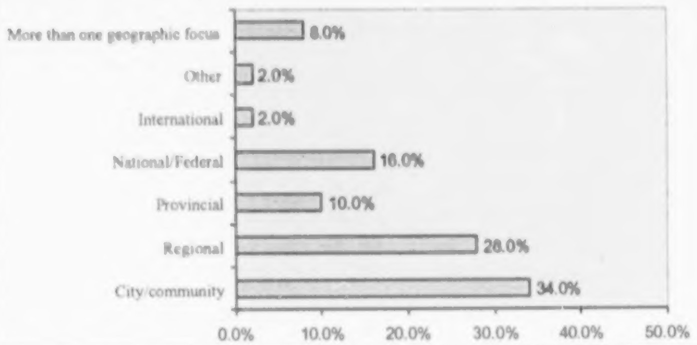
Finally, we would like to draw your attention first, to the size and composition of our sample and secondly, to the time frame of our study. In addition to an extensive literature review and key informant interviews with people knowledgeable about funding in the nonprofit and voluntary sector, we conducted 11 focus groups with organizations across the country and administered a written survey. We approached host organizations from different regions and different subsectors to organize our focus groups. Hosts were asked to invite a broad cross-section of groups to attend our sessions, based on established selection criteria. Focus group participants, in turn, were asked to complete a written survey providing general information on the organization and its finances over the past five years, from 1997 to 2001. In total, 104 questionnaires were distributed and 51 responses were received, for a response rate of 49%. Given the small size of this sample, there are limits as to the inferences that this study will support. As well, it is important to note that the organizations that chose to attend the focus groups and to subsequently complete the survey clearly thought that funding for the nonprofit and voluntary sector was an important issue, and thus, cannot be said to be broadly representative. Still, we believe that the survey findings, in conjunction with the other sources of information gathered for this project, provide an accurate and telling picture of funding trends in the nonprofit and voluntary sector today.

With regard to the time frame, broadly speaking, Canada experienced positive economic growth through much of the period from 1997 to 2001. Indeed, 1997 marked a turnaround after years of stagnant economic performance following the deep recession of the early 1990s. For nonprofit and voluntary organizations, there was increasing government support after a period of severe cutbacks and restructuring.[5] Among individual Canadians, average after-tax income – and the monetary value of charitable donations – rose between 1997 and 2000 as well.[6] It is important to keep in mind that all groups, and certainly all regions of the country, did not experience the growth of the late 1990s to the same degree. Indeed, among many nonprofit and voluntary groups, the level of financial insecurity has persisted as governments and other funders have restructured their funding mechanisms. But for many in the nonprofit and voluntary sector, the economic climate of the late 1990s was on average, relatively positive. The current period of economic instability, however, is beginning to be felt throughout the nonprofit and voluntary sector as key funders – notably foundations and corporate donors – have been impacted by the meltdown of the equity market. Government funding has also become increasingly uncertain as the pressures on governments, particularly provincial and municipal governments, have grown.

## Age, Geographic Focus, Legal Status

The nonprofit and voluntary organizations that were surveyed for this study are a diverse group. As noted above, the large majority of groups surveyed were incorporated (96.0%). Over half are registered charities with the Canada Customs and Revenue Agency (55.1%); another 20.4% are registered as nonprofit organizations, and 22.4% are registered as both nonprofits and charities (N=49). The groups surveyed are largely community-based: 34.0% identify city/community/ neighbourhood as their geographic focus of operation. Another 28.0% stated that they served a regional audience, including rural municipalities. Ten per cent were provincial in orientation, while another 16.0% had a national or federal focus. Only 2.0% of the sample were international organizations and another 8.0% had more than one geographic focus (N=50).

**Chart 4.1**
**Nonprofit and Voluntary Organizations:**
**Primary Geographic Focus, 2002**



Source: CCSD Funding Study (N=50)

The age span of nonprofit and voluntary organizations was wide, as one might expect. The large majority of organizational respondents were well established. Over 85% have been in existence for more than 10 years. The largest group (29.4%) was started 10 to 19 years ago in the 1980s, while another one-quarter of organizations (27.5%) were started 20 to 29 years ago (N=48). The fact that over half of the organizations surveyed were started during the 1970s and 1980s is not surprising. There was a marked increase in government support for nonprofit and voluntary organizations, particularly through the 1970s (See Pal, 1997; Phillips, 1991). One-fifth of the organizations surveyed were over 40 years old. All of these groups have had a great deal of experience weathering changing funding environments.

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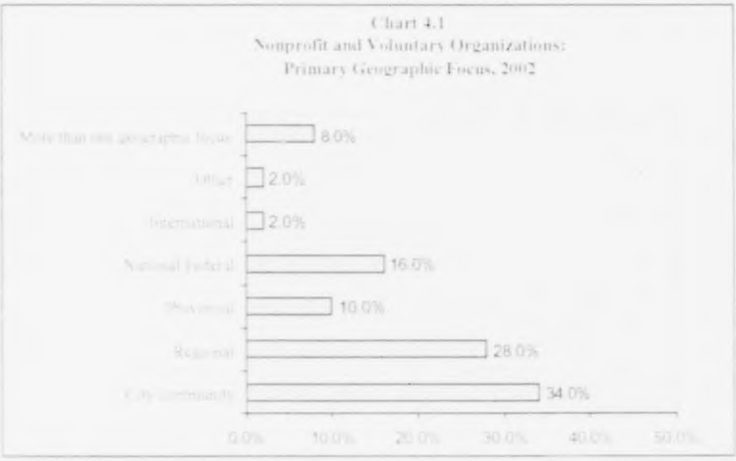
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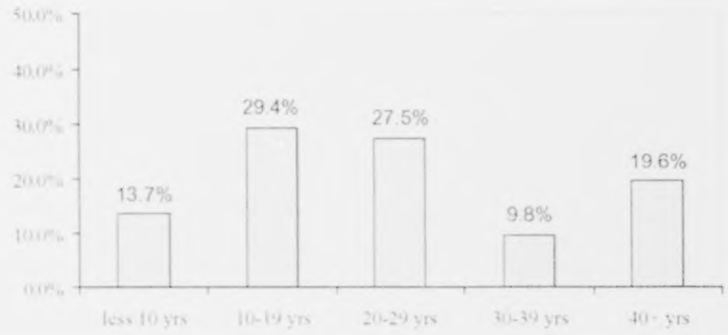
Chart 4.2
Nonprofit and Voluntary Organizations:
Number of Years in Operation, 2002



Source: CCSD Funding Study (N=48)

## Programs and Activities

The nonprofit and voluntary groups surveyed for this project are active in a wide variety of areas. Chart 4.3 shows the breakdown of our respondents according to their primary area of activity. The largest group of nonprofit and voluntary organizations surveyed worked in social services (30.0%), followed by community benefit organizations (18.0%) and environmental groups (14.0%). Twelve per cent of the groups surveyed were involved in the arts; organizations that serve ethnocultural communities and community-based health services each made up 10.0% of respondents. Recreation and sports groups made up 6.0% (N=50). In the absence of national data, it is difficult to say how closely this group of nonprofit and voluntary organizations mirrors the composition of the nonprofit and voluntary sector across Canada. The new *National Survey of Nonprofit and Voluntary Organizations*, expected in 2004, will provide the first comprehensive portrait of the nonprofit and voluntary sector in all of its diversity.

In addition to asking about their main area of activity, the organizations were also asked to indicate the types of services or programs that they deliver and to indicate the top three in order of importance to their organization. Table 4.1 presents the diversity of activities, ranked from top to bottom according to the number of times organizations in the study selected each task. (All organizations indicated more than one activity or service so the total in the table exceeds 100%.) The two most common activities reported were organizing events, supervising or coordinating activities (90.5%) and providing information (90.5%). Three-quarters of the organizations indicated that they were involved in distributing information (76.2%) and providing public education (76.2%). By contrast, one-quarter were directly involved in providing care (23.8%), while only 7.2% were involved in making items. One-quarter of these groups also indicated that they were involved in activities not captured on the survey (N=48). Other activities included: production of live theatre; project ma nagement; community organizing; collection and distribution of food donations; knowledge brokering; and provision of low-cost services.

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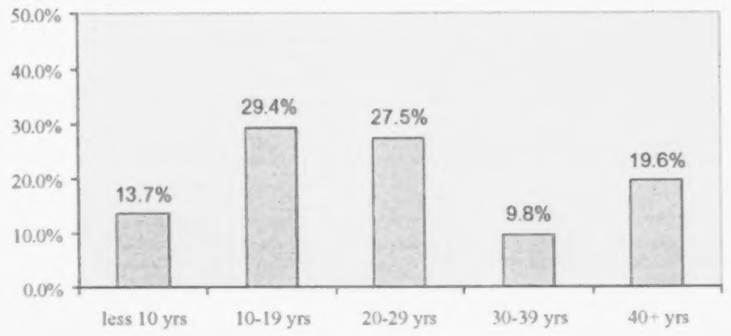

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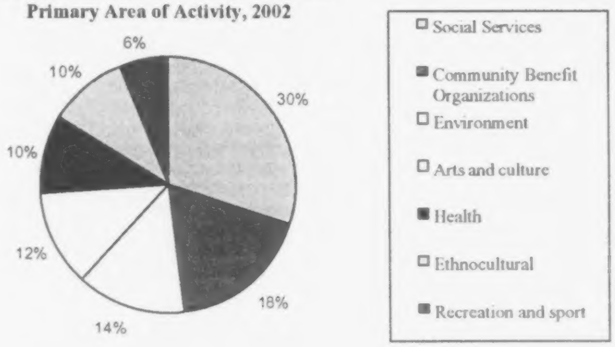
**Chart 4.3**
**Nonprofit and Voluntary Organizations: Primary Area of Activity, 2002**



Source: CCSD Funding Study (N=50)

**Table 4.1**
**Nonprofit and Voluntary Organizations: Types of Activities and Programs, 2002**

| Activities | All Activities* (% of organizations) | Primary Activity (% of organizations) |
|---|---|---|
| make items | 7.2 | - |
| provide care | 23.8 | 12.5 |
| other | 26.2 | 12.5 |
| professional consulting | 31.0 | - |
| research | 45.2 | 4.2 |
| lobbying government | 45.2 | 6.3 |
| provide goods & services to members | 57.1 | 22.9 |
| promote ideas | 59.5 | 2.1 |
| stimulate voluntarism | 61.9 | 8.3 |
| fundraising | 61.9 | 2.1 |
| provide advice | 64.3 | 2.1 |
| publish, distribute information | 76.2 | - |
| public education | 76.2 | 18.8 |
| provide information | 90.5 | 2.1 |
| organize events, supervise or coordinate activities | 90.5 | 6.3 |

* Total will exceed 100%.
Source: CCSD Funding Study (N=48)

We then asked the respondents to indicate which of the many activities and services they provided was the most important to their organization. The findings are presented in the second column. Over one-fifth (22.9%) of organizations indicated that providing goods and services to their members was their most important activity. Another 18.8% of groups indicated that providing public education was their main activity, while 12.5% stated that their main activity was providing care.[7]

In addition to asking about the range of programs and services offered, we asked the nonprofit and voluntary organizations approximately what proportion of their organization's efforts was devoted to programming or service delivery and what proportion was devoted to advocacy or public educational work. Predictably, the range of responses was quite wide. Nonprofit and voluntary sector organizations surveyed indicated that they devoted over half of their time to programming or service delivery, ranging from groups that devoted one-fifth of their time to this activity to those that reported spending all of their time engaged in service delivery. The trimmed mean – that is, the average of the middle 90% of groups – was 70.8%. In addition, organizations indicated that they devoted an average of 11.9% to promoting advocacy or public policy dialogue. Given the restrictions applied to charitable organizations that they commit no more than 10% of their time to advocacy-related work, this division of organizational effort could have been expected. An average of 14.1% of the groups' time was spent on other tasks (N=48).

## Paid Staff and Volunteers

The scale of nonprofit and voluntary sector activity in Canada is very wide and extremely diverse. Organizations that rely exclusively on volunteers to pursue their goals stand side by side with very large organizations with staff complements numbering in the thousands. Some might rightly argue that a large hospital has less in common with a citizen's group promoting the preservation of local wetlands than the hospital does with a large for-profit organization in the business of providing care. One of the key distinctions is the presence of paid staff. It is a key turning point in the "institutionalization" of community-based nonprofit and voluntary groups.

Many of the organizations in our study started out as grassroots groups, operating from a "church basement," but are now established organizations with paid staff. Over 90% of organizations surveyed for this project had paid staff in 2002 (N=50). This ranged from groups that had no paid staff, to an organization with a staff complement of 131. In 2002, nearly half of the groups surveyed had five to 19 paid employees (44.0%), one-quarter (24.0%) had fewer than five and over one-fifth (22.0%) had 20 or more. Ten per cent had no employees. On average, the groups in our study had 10 staff members (N=50).[8] Health and community benefit organizations tended to have the largest staff complements, while recreation, sport, arts and cultural groups, as well as environmental groups surveyed for this study, were more likely to have between 5 and 19 staff members. Social service groups and organizations serving the ethnocultural community ranged from very small to comparatively large. Not surprisingly, the number of paid staff was directly related to the size of the organization as measured by total revenues.

Overall, organizations in this survey reported an increase in employment between 1997 and 2002. From Table 4.2, we see that there were fewer organizations with no paid staff in 2002 compared to 1997, the proportion falling by over half. At the same time, the share of organizations with between five to 19 staff members grew by 24 percentage points, more than doubling. The proportion with more than 20 employees grew by 22.2%, from 18.8% to 22.0%. And as we will see in the next section, most organizations also experienced an overall increase in revenues over the 1997-2001 period, clearly a factor in the increase in staffing levels evident here.[9]

**Table 4.2: Distribution of Nonprofit and Voluntary Organizations by Number of Employees, 1997 and 2002**

| Total Number of Employees | 1997 (%) | 2002 (%) | Percentage share increase / decrease (%) |
|---|---|---|---|
| none | 24.0 | 10.0 | -14 |
| under 5 | 38.0 | 24.0 | -14 |
| 5 to 19 | 20.0 | 44.0 | 24 |
| 20 or more | 18.0 | 22.0 | 4 |
| trimmed mean (#) | 7.2 | 10.2 | |
| median (#) | 4.0 | 7.0 | |

Source: CCSD Funding Study (N=50)

The two tables below provide a more detailed snapshot of employment among the respondent organizations, by looking at the changing composition of their labour force. Most of the job increases in this sample of nonprofit and voluntary organizations were full-time jobs. The average number of full-time jobs was 4.6 in 1997 and 7.2 in 2002 (See Table 4.4). We see that the percentage share of organizations with no full-time staff fell over this period, while the percentage share of organizations with more than five full-time staff grew. At the same time, part-time employment grew as well but not by as much. The average in 1997 was 1.9, rising to 2.2 in 2002. The percentage share of organizations with no part-time staff actually dropped, while those with 1 to 5 part-time staff grew by almost 50%.

The growth of "good jobs" was also evident when we examined the proportion of permanent versus contract positions over this period. There was a significant gain in the average number of permanent positions in the organizations surveyed, from 4.7 in 1997 to 7.4 in 2002. The percentage share of organizations with no permanent staff positions fell by 10 percentage points, while those with over five permanent positions grew by the same percentage share. But as with part-time employment, we also see an increase in the proportion of contract positions. The average for survey respondents stayed the same at 2.1, but the proportion of organizations with between one and five contract positions grew by 10 percentage points.

By way of comparison, the employment rate grew by 2 to 3 percentage points a year over this time period, tapering off after 2000 when employment growth fell to 1.1%. One would then expect to see increases in employment in the nonprofit and voluntary sector as well. As we see, there has been growth in full-time and part-time employment, as well as in permanent and contract positions, consistent with overall trends in the economy and the overall increase in aggregate revenue among this group of nonprofit and voluntary sector organizations (data presented below).

### Table 4.3: Distribution of Nonprofit and Voluntary Organizations by Number of Full-time and Part-time Employees, 1997 and 2002

| Employment Status | 1997 (%) | 2002 (%) | Percentage share increase / decrease (%) |
|---|---|---|---|
| number of full-time staff (perm + contract) | | | |
| none | 30.0 | 16.0 | -14 |
| under 5 | 36.0 | 38.0 | 2 |
| over 5 | 34.0 | 46.0 | 12 |
| average mean (#) | 4.6 | 7.2 | |
| median (#) | 2.0 | 4.0 | |
| number of part-time staff (perm + contract) | | | |
| none | 50.0 | 32.0 | -18 |
| under 5 | 34.0 | 50.0 | 16 |
| over 5 | 16.0 | 18.0 | 2 |
| trimmed mean (#) | 1.9 | 2.2 | |
| median (#) | 0.5 | 2.0 | |

Source: CCSD Funding Study (N=50)

### Table 4.4: Distribution of Nonprofit and Voluntary Organizations by Number of Permanent and Contract Employees, 1997 and 2002

| Employment Status | 1997 (%) | 2002 (%) | Percentage share increase / decrease (%) |
|---|---|---|---|
| Number of permanent staff (ft + pt) | | | |
| none | | | |
| under 5 | 30.0 | 20.0 | -10.0 |
| over 5 | 34.0 | 34.0 | -- |
| | 36.0 | 46.0 | 10.0 |
| trimmed mean (#) | | | |
| median (#) | 4.7 | 7.4 | |
| | 3.0 | 4.0 | |
| number of contract staff (ft + pt) | | | |
| none | | | |
| under 5 | 56.0 | 44.0 | -12.0 |
| over 5 | 24.0 | 34.0 | 10.0 |
| | 20.0 | 22.0 | 2.0 |
| trimmed mean (#) | | | |
| median (#) | 2.1 | 2.1 | |
| | 0.0 | 1.0 | |

Source: CCSD Funding Study (N=50)

Nonprofit and voluntary organizations draw on volunteers as well as paid staff. Volunteers are critical to the nonprofit and voluntary sector. While many organizations become more "institutional" and "professional" over time, volunteers continue to play key roles in governance, programs and services, communications, fundraising and outreach.[10] The availability of volunteers is especially important in a context of reduced resources; nonprofit and voluntary organizations do report turning to volunteers in their efforts "to do more with less."[11] That said, recruiting, training, and retaining skilled volunteers is very time consuming and costly. Like any resource, an organization may or may not be able to make use of it. The presence of volunteers represents its own challenges and opportunities for organizations pursuing their mission within the confines of the new funding regime.

In our sample, 96.0% of respondents reported that they benefited from volunteer labour (N=50). On average, the responding organizations "employed" an average of 93.5 volunteers in 2002, an increase of 31.7% from 1997.[12] Recreation, sport, arts and cultural groups reported the highest number of volunteers in 2002, followed by community benefit organizations. Ethnocultural associations reported having the fewest volunteers: 60% relied on 25 volunteers or less in 2002. Smaller organizations tend to have fewer volunteers – as opposed to what one might think – while larger organizations – those with revenues over $500,000 were more likely to report having 100 or more volunteers in the past year. While smaller organization might well benefit from having volunteers given the size of their budgets and the availability of paid staff, it is clearly the larger organizations in our study that appear to have the capacity to recruit and manage volunteers.

In Table 4.5, we see that the distribution of volunteers has changed somewhat. Responding organizations seem to have benefited from an increase in the number of volunteers contributing to their organizations over the past five years. This is consistent with the finding that nearly half of the organizations surveyed (47.8%) stated that they experienced increased turnover of volunteers over this period, compared to 15.2% that stated that volunteer turnover had decreased, and 37.0% that reported no change (N=46). Overall, these findings suggest that the groups surveyed for this project have been successful in recruiting and retaining volunteers.

**Table 4.5: Distribution of Nonprofit and Voluntary Organizations by Number of Volunteers, 1997 and 2002**

| Number of Volunteers | 1997 (%) | 2002 (%) | Percentage Share Increase / Decrease (%) |
|---|---|---|---|
| less than 25 | 34.1 | 29.3 | -4.8 |
| 25 to 49 | 17.1 | 17.1 | 0.0 |
| 50 to 99 | 26.8 | 24.4 | -2.4 |
| over 100 | 22.0 | 29.3 | 7.3 |
| trimmed mean (#) | 71.0 | 93.5 | |
| median (#) | 34.0 | 50.0 | |

Source: CCSD Funding Study (N=41)

Taken together, these data suggest that nonprofit and voluntary sector organizations are engaged in a wide variety of activities, many of whom have been in operation for many, many years. This group of nonprofit and voluntary organizations has a secure base of paid employees and works with many volunteers in their communities. It is important to keep in mind that the organizations surveyed for this study do not necessarily reflect the experiences of all nonprofit and voluntary organizations. The project identified well-established organizations, particularly those with an interest in nonprofit and voluntary sector funding. That said, as the next section and our extensive consultations reveal, broad indicators of stability such as the number of full-time employment positions or organizational longevity do not necessarily indicate a stable financial situation.

## 4.2 Participating Organizations: How are they faring financially?

We turn now to an analysis of the financial situation of nonprofit and voluntary organizations participating in our study. The central goal of this project is to explore *how* funding affects organizational capacity to generate and sustain the resources necessary to meet mission. This section looks at the level and composition of funding among nonprofit and voluntary organizations participating in this study, a key step in this task. To this end, we asked study participants to help us answer a number of questions:

- How have levels of funding changed?
- Are nonprofit and voluntary organizations diversifying their sources of income?
- What is the current mix of funding sources and mechanisms?
- How has the mix of funding sources and mechanisms changed over time?

Our findings reveal that with few exceptions, this group of nonprofit and voluntary organizations has experienced positive financial health as measured by their increase in aggregate income. Indeed, participating groups have been very successful in diversifying their income bases. At the same time, these global trends mask more disquieting findings, namely marked volatility of organizational income from year to year and higher levels of financial uncertainty. These findings are clearly linked to the proliferation of contract and project funding – as seen in the changing mix and value of income sources and mechanisms – as well as intensified competition for resources, both of which are characteristic of Canada's new funding regime. The ramifications of the financial volatility and uncertainty for organizations and the sector as a whole are explored in the next chapter.

### How have levels of funding changed?

At the outset, we noted that the organizations participating in this study all had financial resources at their disposal. Looking first at assets, nine out of ten organizations surveyed for this project (88.0%) indicated that they had assets worth between $1,400 to $4,251,800 (N=41). The average value of organizational assets was approximately, $370,000. However, the trimmed mean, that is the average of the middle 90% of organizations, is a better reflection of the average assets held. Using this measure, average assets for our group of respondents was $250,000. The median was $100,000. (The median is a measure of central tendency; it represents the mid point at which 50% of organizations have incomes below this point, and 50% of organizations have incomes above it.) Less than half indicated that they had any debt (42.0%), the average value of which was $257,000. The trimmed mean of debt value was $121,000, the median, $24,000. The level of debt reported ranged from $2,000 to $2,955,400 (N=19).

Most organizations had assets of less than $100,000 (46.3%), while another 34.1% had assets between $100,000 and $500,000, and 19.5% had assets over $500,000. Similarly, the majority had debt loads below $100,000 (57.9%). Organizations serving ethnocultural communities had the lowest level of assets, as reported by survey respondents. Social service groups had the highest. With regard to debt, the number of respondents was too small to break down by subsector.

In 2001, the nonprofit and voluntary organizations surveyed administered approximately $50.2 million in total, with an average of $1,046,100.[13] However, these data are misleading. As with the discussion of paid staff, the range of income was quite wide, from $5,400 to $7.9 million. The presence of a number of large nonprofit and voluntary organizations serves to push up the average. The median income of the organizations surveyed was actually substantially lower at $276,600. If we look at the 5% trimmed mean, we see that it was $779,400 in 2001 (N=48).

The size of the annual budget is an important indicator of the size of an organization and – studies have shown – the capacity of organizations to adapt to a changing environment.[14] In our survey, the organizations appear to be larger than average as measured by income.[15] We see that 18.8% of organizations had annual revenues of $100,000 or less in 2001; 45.8% had revenues between $100,000 and $500,000 and the final group (35.4%) had revenues over $500,000 (N=48) (data not shown). Roughly one-third of organizations surveyed, then, had revenues of more than $500,000 in 2001, compared to only 15% of the organizations surveyed in a comparable Manitoba study.[16] The bias towards larger organizations evident in these data should be kept in mind when interpreting the results of the study.

Nonprofit and voluntary sector organizations in different subsectors or fields of service tend to have different sized budgets. In 2001, health groups in our sample of organizations – shown in Table 4.6 – had the highest incomes on average, while organizations serving ethnocultural communities had the lowest (N=48). However, looking at median incomes tells a somewhat different story. Health groups again tended to have the highest incomes. Half of the health groups surveyed had incomes above $1,349,700, while half had incomes below this point. Environmental organizations, however, had the lowest median incomes at $197,000. This suggests that there is a wide variation in incomes among environmental groups in our sample, with a number of high-income organizations pulling up the average for the subsector. With the exception of ethnocultural organizations, the variation in budget size within each subsector would appear to be greater than variation in budget size between groups.

### Table 4.6: Nonprofit and Voluntary Organization, Average and Median Income by Subsector, 2001

| Field of Service / Subsector | Trimmed Mean ($) | Median ($) |
|---|---|---|
| health | 2,202,600 | 1,349,700 |
| social services | 902,800 | 218,800 |
| recreation, sport, arts and culture* | 573,200 | 259,000 |
| environment | 860,700 | 197,000 |
| community benefit | 898,400 | 375,000 |
| ethnocultural | 373,500 | 299,000 |

Rounded to nearest $100. For the purposes of this financial analysis, we have collapsed recreation and sport organizations with the arts and culture organizations in order to create a larger grouping to facilitate analysis.
Source: CCSD Funding Study (N=48)

In order to get a sense of how nonprofit and voluntary organizations have managed financially over the past five years, we asked about the organization's income in 1997, 1999 and 2001 (the most recent fiscal year).[17] Thirty-two organizations provided information for these three points in time. This period, by and large, was a period of economic growth and we see that the nonprofit and voluntary organizations in this survey have done well, experiencing positive levels of growth.[18] Aggregate income increased by a third (36.8%) between 1997 and 2001, the bulk of the increase happening between 1997 and 1999 (data not shown). Even taking inflation into account (assuming an annual 2.0% growth in the consumer price index over this period), these gains are very strong. By way of comparison, real government expenditures between 1997 and 2001 (net debt charges) increased by roughly 20 per cent.

Similarly, the change in average income and median income was positive: average incomes – as measured by the trimmed mean – increased by 78.8% between 1997 and 2001, while median incomes increased by 39.0% as shown in Table 4.7. The substantial increase in average incomes was directly related to very large increases experienced by a few organizations. However, the fact that median incomes rose as well, suggests that the majority of organizations experienced growth through this period. The most marked growth occurred between 1997 and 1999.

**Table 4.7: Nonprofit and Voluntary Organizations, Average and Median Income, 1997, 1999, 2001 (constant dollars)**

| Income | 1997 ($) | 1999 ($) | 2001 ($) | Change in Income (%) | | |
|---|---|---|---|---|---|---|
| | | | | 1997-2001 | 1997-1999 | 1999-2001 |
| trimmed mean | 475,300 | 641,300 | 735,700 | 78.8 | 52.6 | 24.4 |
| median | 189,600 | 256,400 | 275,300 | 39.0 | 19.5 | 6.3 |

Rounded to nearest $100. Fiscal years presented may vary slightly. Please note that the data presented for three points in time is based on a sample of 32 organizations, those that provided data for each year.
Source: CCSD Funding Study (N=32)

The growth in income is also revealed in Table 4.8. The share of low-income groups in our sample fell by 6.2 percentage points between 1997 and 2001. The proportion of middle-sized organizations – those with incomes between $100,000 and $499,999 – also fell between 1997 and 1999, but surged ahead in 2001 by 6.2 percentage points. The proportional share of groups with large incomes grew by 6.3 points between 1997 and 1999, and then fell by 3.2 points for an overall percentage point gain of 3.1 for this five year period.

**Table 4.8: Percentage Distribution of Nonprofit and Voluntary Organization by Income Category, 1997, 1999, 2001 (constant dollars)**

| Income Category | 1997 (%) | 1999 (%) | 2001 (%) |
|---|---|---|---|
| under $100,000 | 25.0 | 21.9 | 18.8 |
| $100,000 to $499,999 | 46.9 | 43.8 | 50.0 |
| over $500,000 | 28.1 | 34.4 | 31.3 |

Source: CCSD Funding Source (N=32)

Among our respondents, organizations in the health field and in the recreation, sport, arts and culture group all experienced a decline of aggregate income between 1997 and 2001 of 24.0% and 9.1% respectively. By contrast, community benefit organizations doubled their aggregate income. Social service and environmental groups also experienced large gains in aggregate income, whereas organizations serving ethnocultural communities experienced a smaller – yet still significant – gain of 25.4% over this period (data not shown). Given the small numbers of organizations in each subsector within our sample, however, the experience of one or two can dramatically affect the overall results in this kind of analysis. This is certainly true when we look at environmental groups. One group in particular had a dramatic proportional increase in income, going from $3,000 annual income to $170,000 over this period, as they secured contract funds. The increase in income among the organizations reported here, then, should also be interpreted with caution.

Another way to analyse the data is to look at the number of winners and losers over the five-year period. Between 1997 and 2001, of the 32 organizations that provided complete data, 26 experienced a gain in income – that is roughly eight out of ten. One-fifth experienced a decline, the majority of which were in the recreation, sport, arts and culture field. Most organizations experienced gains in the period between 1997 and 1999; there were 27 income "winners" in this period, compared to 21 in the period between 1999 and 2001.

Overall, most nonprofit and voluntary organizations surveyed in this study were very successful in generating financial resources through the late 1990s and early years of the new century. As the economy improved, so did the balance sheets of many of the groups. Yet, these same groups also report that they have been affected by cuts in funding from government sources and non-government sources. Three-quarters (75.5%) of nonprofit and voluntary organizations have been affected by cuts in government funding, while over half (55.1%) stated that they had also been affected by reductions in funding from foundations, individuals, corporations and the like (Table 4.9). Of those surveyed, ethnocultural organizations, as well as recreation, sport, arts and cultural groups were more likely to report having experienced cutbacks from government and non-government sources, consistent with the reductions in aggregate income for the latter reported above.

**Table 4.9: Percentage of Nonprofit and Voluntary Organizations Reporting Cutbacks from Government and Non-government Funders, by Subsector, 2002**

| Field of Service / Subsector | Organizations Reporting Cutbacks in Funding | |
|---|---|---|
| | from government sources (%) | from non-government sources (%) |
| health | 80.0 | 40.0 |
| social services | 66.7 | 46.7 |
| recreation, sport, arts and culture | 90.0 | 70.0 |
| environment | 50.0 | 66.7 |
| community benefit | 77.8 | 44.4 |
| ethnocultural | 100.0 | 80.0 |
| Total | **76.0** | **56.0** |

Source: CCSD Funding Study (N=50)

Similarly, six out of ten nonprofit and voluntary organizations surveyed were unsatisfied with their current level of funding: 22.7% were "very unsatisfied", and 38.6% were "unsatisfied". Only one-quarter (25.0%) said they were "satisfied" (no organization claimed to be "very satisfied"). The remaining group (13.6%) stated that they were neither satisfied nor unsatisfied (N=44). With the exception of social service groups, the majority of respondents were "very unsatisfied" or "unsatisfied" with their level of funding. Over 80% of environmental groups and organizations serving ethnocultural communities expressed their dissatisfaction with funding levels. These sentiments were echoed in our focus groups as well.

On first reading, these findings seem somewhat contradictory given the fact that most groups in our survey have experienced gains in income. However, these groups have also experienced a great deal of turmoil in their funding situations. The sheer size of the income shifts involved is certainly a warning sign and an important finding from this study. Looking at the "winners" and "losers" over the 1997-2001 period again, we see huge income gains and losses. In Table 4.10, we identify two groups: "stable" organizations where income gains or losses between 1997 and 2001 were 10 per cent or less and "volatile" organizations where income gains or losses were 25 per cent or more, adjusted for inflation. Over five years, 25.0% of organizations experienced a relatively stable income situation. By contrast, 56.3% had income swings of more than 25 per cent, that is, over half of the organizations surveyed experienced significant volatility of income. Volatility in income was greatest among social service and environmental organizations.

**Table 4.10: Percentage of Nonprofit and Voluntary Organizations by Stability / Volatility of Aggregate Income, 1997 – 2001**

| 1997 –2001 (%) | | 1997-1999 (%) | | 1999-2001 (%) | |
|---|---|---|---|---|---|
| **Stable** | **Volatile** | **Stable** | **Volatile** | **Stable** | **Volatile** |
| 25.0 | 56.3 | 25.0 | 43.8 | 34.4 | 46.9 |

Stable income = income gains or losses equal to or less than 10%; Volatile income = income gains or losses equal to or more than 25%.
Source: CCSD Funding Study (N=32)

The volatility of income reveals the "feast or famine" conditions that exist for many in the nonprofit and voluntary sector today. While some groups have been pushed aside all together, forced to close their doors, many others – including those surveyed in this study – are struggling year to year to create a base of financial security in a context of fluctuating income, related in large part as we will see below to surges in project income. The theme of financial uncertainty was raised time and again in the focus groups. Almost every respondent (95.7%) reported that funding reliability and certainty was an issue for their organization (N= 46). Six out of ten (59.1%) reported that the current sources of funding were not stable or reliable (N= 44), and 53.1% noted that they were less certain about the renewal of their funding today than they were five years ago (N= 49). Indeed, groups that experienced the greatest swings in income were also more likely to report concern about funding instability than groups with more stable funding histories: 66.7% compared to 57.1% (N=27). These data illustrate the contention that while the amount of funding is obviously critical, *how* nonprofit and voluntary organizations are funded is equally, if not more, important in many cases. The very uncertainty of funding is evidence of the emerging funding regime and the growing dominance of the project or contract sources of funding.

### Are nonprofit and voluntary organizations diversifying their sources of income?

Nonprofit and voluntary sector organizations derive their income from a variety of sources: donations, government grants and payments; membership fees; income from commercial ventures; income from other nonprofit organizations such as foundations or religious organizations. (In addition to direct payment from these sources, nonprofit and voluntary organizations are also heavily dependent upon in-kind support from individuals and businesses in their communities as well governments and other charitable organizations.) Although this list of income sources may seem extensive, not all organizations are able – or in fact want – to take advantage of each source. There are different funding patterns or mixes evident across the nonprofit and voluntary sector, each linked to the diverse structures, mandates and services of nonprofit and voluntary organizations. As well, the ability of organizations to pursue different funding sources is also uneven. What is certain, as is evident from our survey and focus group findings, is that nonprofit and voluntary organizations are juggling an increasingly diverse and complex mix of funding sources and mechanisms.

In our survey, 87.5% of organizations surveyed received income from government sources, while over 90% raised funds from private sources, including individual donations, private foundations, religious organizations, and the United Way. What is also interesting to note is the extent to which nonprofit and voluntary groups are involved in income generation activities – that is, the selling of goods and services to members, other commercial activities such as museum gift shops, or investments. Among survey participants, 75% relied on income from earned income activities.[19]

Looking at a breakdown of sources, we see that over half of the organizations received grant income from government sources (56.3%), while seven out of ten (70.8%) had project or program funding. Only one out of eight (12.5%) derived income from contracts that were competitively tendered. And one-quarter (27.1%) received income from a public foundation such as the Alberta Sport, Recreation, Parks and Wildlife Foundation in 2001 (N=48).

Overall, the greatest number of nonprofit and voluntary groups in this study received income from private sources. Over half (56.3%) received individual donations in 2001 and 10.4% had an endowment which produced an income stream. Six out of ten generated revenues from fundraising activities in 2001. One-third of nonprofit and voluntary organizations surveyed received United Way funding, while 43.8% were successful in securing funds from private foundations, the bulk of which in the form of project or program funding. Looking at corporate donations, 43.8% of organizations received philanthropic donations from corporations; a smaller number (25.0%) received sponsorship dollars.

Over half (58.3%) of the organizations received income from membership dues or fees. At the same time, over one-third (37.5%) generated income through commercial activities and private investments such as rental properties or securities.

In brief, the overwhelming majority of organizations surveyed relied on government sources of funding as well as private giving. Earned income was also a stream of revenue for three-quarters of the groups.

## Table 4.11: Percentage of Nonprofit and Voluntary Organizations Claiming Each Source of Income, 2001

| Income Source | % of Organizations Claiming Each Source |
|---|---|
| **Government Funding (N=42)** | |
| Grants | 56.3 |
| Contributions | 70.8 |
| contracts | 12.5 |
| public foundations | 27.1 |
| other government funding | 10.4 |
| **Subtotal** | **87.5** |
| **Private Giving (N=44)** | |
| individual | 56.3 |
| corporate | 43.8 |
| union | 6.3 |
| endowment | 10.4 |
| sponsorship | 25.0 |
| united way | 33.3 |
| private foundations | 43.8 |
| fundraising | 60.4 |
| other private giving | 20.8 |
| **Subtotal** | **91.7** |
| **Earned Income (N=36)** | |
| fees / dues | 58.3 |
| commercial activities | 37.5 |
| investments | 31.3 |
| other earned income | 16.7 |
| **Subtotal** | **75.0** |
| **Other Income** | **4.2** |

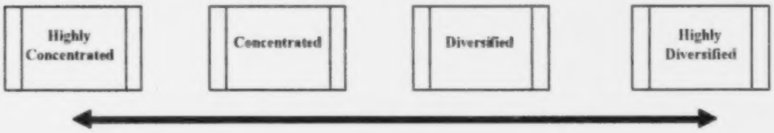
Source: CCSD Funding Study

The following income concentration / diversification typology provides a snapshot of the funding diversity of nonprofit and voluntary organizations. Sample organizations were divided into four groups according to the number of income sources by subsector. It is important to note that this typology does not necessarily capture all of the income sources that particular organizations have. Rather, it counts the number of different types of income sources – 19 of which are listed in Table 4.11 – organizations identified in the survey. For example, an organization might have a number of contracts with one level of government or another, yet in our table this source is only counted once.

Thus, the actual number of distinct income sources for the nonprofit and voluntary organizations surveyed is underrepresented.[20]

## Figure 4.1

**Income Concentration / Diversification Typology**



In our typology, groups that had one or two sources were classified as "highly concentrated"; groups that had between three and five sources were classified as "concentrated"; groups that had between six and eight sources of income were classified as "diversified"; and lastly, groups that had more than eight sources of income were classified as "highly diversified." We found that the largest percentage of nonprofit and voluntary groups in this survey (43.8%) relied on between three to five main sources of income in 2001. The next largest grouping (29.2%) had between six and eight sources. One out of six (16.7%) were "highly diversified" compared to one out of ten (10.4%) who were "highly concentrated" (N=48). With the exception of community benefit organizations and those in sports, recreation, arts and culture, over half of the organizations surveyed had either "highly concentrated" or "concentrated" funding mixes. Larger organizations, those with annual revenues of over $500,000, were more likely to have "diversified" (47.1%) or "highly diversified" (17.6%) funding patterns than organizations with smaller annual revenues (data not shown). Again, it is important to remember that this typology does not capture every individual grant, contract or sponsorship agreement, but the number of major income streams that each organization has. That said, we see that most participating groups rely on three or more funding sources.

The pressure to diversify income sources and mechanisms stems from both internal and external sources. Many funders have been very active encouraging greater resource diversification on the part of nonprofit and voluntary organizations as a way to facilitate greater self-sufficiency and market efficiencies. At the same time, organizations have pursued resource diversification in an effort to break away from dependence upon a single revenue source or strategy, thus reducing their vulnerability to income uncertainties and the influence of resources providers (Froelich, 1999: 263). Here we see that nonprofit and voluntary organizations have indeed heeded the call to diversify their funding sources. Over ninety per cent of nonprofit and voluntary organizations surveyed (93.3%) reported that they have tried to diversify their funding sources. Two-thirds (65.9%) stated that they had in fact successfully increased the number of funding sources over the past five years (N=44).

The growth in funding sources is shown in Table 4.12. These findings are based on the surveys of 32 organizations that provided complete financial information for 1997, 1999 and 2001. Of the 19 different sources of income identified in our questionnaire, there was an increase in the number of organizations receiving income from 16 sources. There was no change for two sources, and in only one case – grants – did the number of organizations receiving funds drop between 1997 and 2001.

This is not just a decline in the value of grant income. There was a real decline in the number of organizations actually drawing grant income.

**Table 4.12: Percentage of Nonprofit and Voluntary Organizations Claiming Each Source of Income, 1997, 1999, 2001**

| **Income Source** | **1997 (%)** | **1999 (%)** | **2001 (%)** |
|---|---|---|---|
| **Government Funding** | | | |
| Grants | 62.5 | 68.8 | 53.1 |
| Contributions | 65.6 | 75.0 | 81.3 |
| Contracts | 18.8 | 12.5 | 18.8 |
| public foundations | 9.4 | 37.5 | 34.4 |
| other govt funding | 9.4 | 12.5 | 12.5 |
| **Subtotal** | **87.5** | **96.5** | **93.5** |
| **Private Giving** | | | |
| Individual | 46.9 | 50.0 | 62.5 |
| Corporate | 31.3 | 43.8 | 50.0 |
| union | 3.1 | 6.3 | 6.3 |
| endowment | 3.1 | 6.3 | 15.6 |
| sponsorship | 9.4 | 21.9 | 21.9 |
| united way | 31.3 | 37.5 | 37.5 |
| private foundations | 25.0 | 43.8 | 46.9 |
| fundraising | 56.3 | 62.8 | 68.8 |
| other private giving | 25.0 | 25.0 | 28.1 |
| **Subtotal** | **78.1** | **90.6** | **93.8** |
| **Earned Income** | | | |
| fees / dues | 50.0 | 53.1 | 59.4 |
| commercial activities | 43.8 | 43.8 | 46.9 |
| investments | 34.4 | 37.8 | 40.6 |
| other earned income | 21.9 | 18.8 | 24.9 |
| **Subtotal** | **68.8** | **75.0** | **78.1** |
| **Other Income** | **3.1** | **3.1** | **6.3** |

Source: CCSD Funding Study (N=32)

Overall, organizations relying on government sources of funding increased from 87.5% in 1997 to 93.5% in 2001. It is interesting to note that the number of organizations relying on government sources increased by 9.0 percentage points between 1997 and 1999, and then fell back 3.0 percentage points between 1999 and 2001. By contrast, there was a consistent increase in the numbers of organizations identifying earned income sources, from 68.8% in 1997 to 78.1% in 2001. This finding illustrates the growing impact of commercialization in the nonprofit and voluntary sector, as increasing numbers of organizations pursue earned income opportunities, above and beyond the pursuit of government contract and project work. The largest increase was in the number of groups tapping private sources: 15.7 percentage points. Among the organizations surveyed, organizations are now as likely to have funding from private giving sources as from government sources.

The pattern of income diversification is evident when we look at the income concentration / diversification typology over time as well (Table 4.13). Earlier, we identified four groups of organizations based on their number of income sources. Organizations that were "highly concentrated" in 1997 were more likely to have "concentrated" or "diversified" funding profiles in 2001. The organizations that had between three and five funding sources and between six and eight funding sources – described here as having "concentrated" or "diversified" funding – were less likely to have experienced change. Two-thirds of these groups had the same funding profile in 2001. However, over one-third of groups described as "concentrated" did become more diversified. Among "diversified" organizations that experienced change, an equal number increased and decreased their number of income sources.

**4.13: Distribution of Nonprofit and Voluntary Organizations by their Number of Income Sources, 1997, 2001**

| Income Concentration / Diversification Typology, 2001 | Income Concentration / Diversification Typology, 1997 | | | |
|---|---|---|---|---|
| | Highly Concentrated (%) | Concentrated (%) | Diversified (%) | Highly Diversified (%) |
| Highly Concentrated | 16.7 | - | - | - |
| Concentrated | 66.7 | 63.6 | 16.7 | - |
| Diversified | 16.7 | 18.2 | 66.7 | - |
| Highly Diversified | - | 18.2 | 16.7 | 100.0 |

- = no cases.
Source: CCSD Funding Study (N=32)

Looking at individual sources of income, more organizations received income from four particular sources: public foundations, private foundations, corporate philanthropy, and government contributions; these are all significant sources, by and large, of project funding. The number of nonprofit and voluntary organizations in our survey successfully applying to public foundations increased by 266.0%: one-third (34.4%) of participating groups claimed public foundation income in 2001, up from 9.4% in 1997. The number of organizations claiming private foundation income increased as well over this period by 87.6%. Almost half of organizations had income from private foundations in 2001. Similarly, there was an increase in organizations receiving income from corporations – both donations (59.7% increase over the five years) and sponsorships (133.0% increase over the five years). (Keep in mind that only one-fifth of participating groups claimed sponsorships as a funding source in 2001, up from one-in-ten five years ago.)

The increase in the number of organizations relying upon private and public foundations and corporate philanthropy is an important finding from this study. Diversification of income sources is well advanced among Canadian nonprofit and voluntary organizations. However, the most significant trend – certainly in terms of its financial impact on organizations discussed below – is the decline in the number organizations drawing grant income from government and the increase in organizations reliant on government contribution or project funding. Between 1997 and 2001, the percentage of organizations relying on grants fell from 62.5% to 53.1%, a decrease of 15.0%. There had been an increase in organizations relying on grants between 1997 and 1999, but these gains were more than eroded by 2001, as grant sources were cut back. On the other hand, organizations relying on contributions steadily increased, from 65.6% of organizations in 1997 to 81.3% in 2001. This represents an increase of 23.9% in the number of organizations relying on government contribution income. The growing prevalence of project funding, **both** from government and non-government sources, is a key factor behind the volatility of income reported earlier.

## What is the current mix of funding sources and mechanisms?

The previous section examined the number of income sources that nonprofit and voluntary organizations have. Next, we look at the changing mix of funding sources and mechanisms. What proportion of the total funding envelope do individual sources of income represent? What are the dominant sources of income and how is this changing?

In Table 5:11 we showed the number of organizations relying on the various sources of income. Table 4.14 shows the importance of government as a source of funding for nonprofit and voluntary organizations participating in this study: 60.7% of aggregate annual income of these organizations came from government sources in 2001, including public foundations (N=48). One fifth (18.8%) came from private giving and another fifth (20.5%) came from earned income.[21]

On average, the organizations surveyed received far larger sums of money from government sources compared to private giving and earned income: $455,700 compared to $146,300 and $143,500. Of nonprofit and voluntary organizations reporting government income, half received less than $168,300 while half received more. The median value of private giving and earned income was $64,500 and $32,000 respectively (see Table 4.15).

When we look at each individual source in the table, we see that contributions – here defined as government project or program funding – and contracts that have been competitively tendered made up two-thirds (67.8%) of aggregate government funding. By contrast, grants constituted a little over one-quarter (27.7%). Public foundations made up 4.0% of government funding in 2001 among organizations surveyed.

Interestingly, among government sources, the average value of contract income was the highest ($400,300). While only six organizations had contract income, the value of these awards was very high, pushing up the average for the entire category. The trimmed mean of contribution (project / program funding) agreements – a much more common funding vehicle – was significantly lower at $287,900. Average grant income was $93,800. Again, the median value of these sources was lower than the average value, suggesting the wide differences in the value of government funding among the responding organizations (See Table 4.15).

**Table 4.14: Distribution of Income of Nonprofit and Voluntary Organizations by Source of Income, 2001**

| Income Source | Distribution of Income, Major Source (%) | Distribution of Income, All Sources (%) |
|---|---|---|
| **Government Funding** | | |
| grants | 27.7 | 16.8 |
| contributions | 58.9 | 35.8 |
| contracts | 8.9 | 5.4 |
| public foundations | 4.0 | 2.4 |
| other govt funding | 0.4 | 0.2 |
| **Subtotal** | **100.0** | **60.7** |
| **Private Giving** | | |
| individual | 8.3 | 1.6 |
| corporate | 7.6 | 1.4 |
| union | 1.1 | 0.2 |
| endowment | 1.1 | 0.2 |
| sponsorship | 7.9 | 1.5 |
| united way | 16.1 | 3.0 |
| private foundations | 35.3 | 6.6 |
| fundraising | 12.3 | 2.3 |
| other private funding | 10.3 | 1.9 |
| **Subtotal** | **100.0** | **18.8** |
| **Earned Income** | | |
| fees / dues | 32.9 | 6.7 |
| commercial activities | 58.0 | 11.9 |
| investments | 2.2 | 0.5 |
| other earned income | 6.8 | 1.4 |
| **Subtotal** | **100.0** | **20.5** |
| **Other Income** | | **0.05** |

Source: CCSD Funding Study (N=48)

Under private giving, there are many possible income sources. Among the organizations surveyed, private foundations provided the largest share of funds by a substantial margin: private foundations formed about one-third (35.5%) of aggregate private income. The average value of private foundation awards was $65,700 but the median value was $13,000. Thus, only a few among the 21 that received funding from private foundations received a substantial amount.

The United Way was the second largest source of private funds at 16.1%, followed by fundraising initiatives undertaken by the individual organizations (12.3%). The United Way was a key source of income for groups in receipt of these funds; the average value of allocations from this source was higher than other private awards at $78,800. The median value of United Way funding was $57,900 for the 16 groups in receipt of this funding, suggesting that most of these groups received a significant allocation.

Corporate donations provided the second smallest share of aggregate income at 7.6%, while sponsorships accounted for a slightly larger proportion (7.9%). Overall, corporate donations were 1.4% of the aggregate income of survey participants, a figure that reveals the very low levels of monetary support that private corporations provide to the nonprofit and voluntary sector in Canada.[22]

Earned income is also a very important source of income for nonprofit and voluntary organizations, accounting for 20.5% of aggregate income. Of this source, commercial activities constituted the largest individual source of revenue, followed by dues and membership fees. This is somewhat surprising in that commercial activities among nonprofit and voluntary groups are not thought to be that common at this time. Over one-third of our participants reported income from commercial activities, making up 58.0% of aggregate earned income revenues. While many more organizations claimed membership fees as a source of income (58.3%), revenues from this source made up just one-third of aggregate earned income revenues. The average value of monies generated from commercial activities was almost three times higher than the average value of membership fees: $172,600 compared to $66,100. One can speculate that income from membership fees is low because nonprofit and voluntary organizations – particularly public interest groups as compared to mutual benefit groups – tend to charge relatively low fees. Certainly, focus group participants lamented that income from memberships rarely covered the costs associated with serving members.

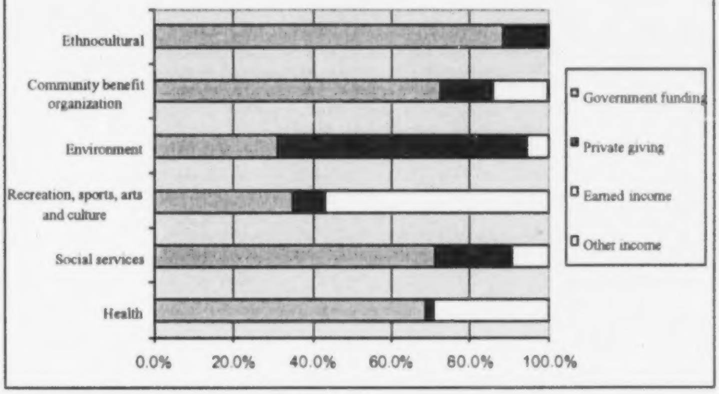
**Table 4.15: Nonprofit and Voluntary Organizations, Average and Median Income by Source, 2001**

| Income Source | Median ($) | Trimmed Mean ($) | Aggregate Value ($) |
|---|---|---|---|
| **Government Funding** | | | |
| grants | 65,000 | 93,800 | 8,310,100 |
| contributions | 65,000 | 287,900 | 17,655,000 |
| contracts | 232,700 | 400,300 | 2,678,300 |
| public foundations | 25,000 | 64,500 | 1,198,700 |
| other govt income | 18,000 | 24,100 | 121,400 |
| **Subtotal** | **168,300** | **455,700** | **29,963,500** |
| **Private Giving** | | | |
| Individual | 8,000 | 15,900 | 766,200 |
| Corporate | 15,500 | 27,700 | 706,700 |
| union | 30,000 | N/A | 103,000 |
| endowment | 5,000 | 18,400 | 98,200 |
| sponsorship | 15,000 | 52,200 | 734,900 |
| united way | 57,900 | 78,800 | 1,496,100 |
| private foundations | 13,000 | 65,700 | 3,272,100 |
| fundraising | 18,000 | 28,400 | 1,136,200 |
| other private giving | 22,300 | 68,200 | 955,100 |
| **Subtotal** | **64,500** | **146,300** | **9,268,500** |
| **Earned Income** | | | |
| fees / dues | 12,500 | 66,100 | 3,318,800 |
| commercial activities | 25,500 | 172,600 | 5,856,100 |
| investments | 6,000 | 12,600 | 227,000 |
| other earned income | 9,500 | 73,900 | 689,900 |
| **Subtotal** | **32,000** | **143,500** | **10,091,800** |
| **Other Income** | **11,500** | N/A | **22,900** |

Rounded to the nearest $100. N/A = insufficient case count.
Source: CCSD Funding Study (N=48)

When we look at the funding mix of each of our subsectors in Chart 4.4, there are predictable differences. Health, social service and community benefit organizations rely on government sources for over half of their annual budgets. In the case of organizations serving ethnocultural communities, government is the source of almost 90% of their income. By contrast, recreation and sport groups as well as arts and cultural organizations derive the largest share of their income from earned income sources.[23] Environmental groups in this study relied primarily upon private giving to fund their activities. This finding is at odds with one from an earlier study that found that government was the principle source of funding for environmental organizations (Browne and Landry, 1996: 30).

**Chart 4.4: Distribution of Voluntary Sector Organizations by Source of Income and Subsector, 2001**

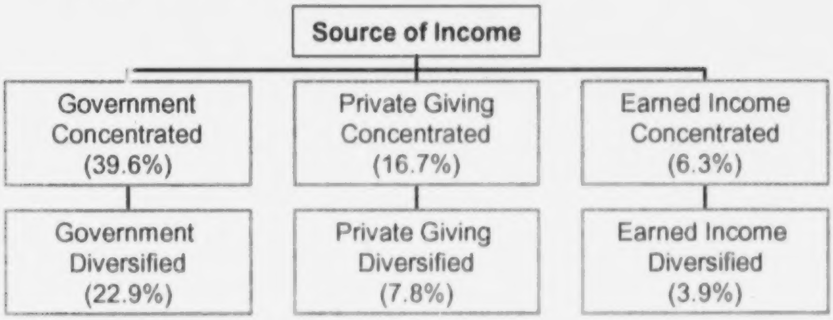


Source: CCSD Funding Study (N=48)

The size of the organization as measured by their annual budget also seems to have an impact on the funding mix. Middle- and large-income groups were much more likely to be dependent upon government sources for their funding: 60.7% and 61.1% respectively. By contrast, organizations with total incomes under $100,000 per year were more likely to rely on private giving: 58.7% of their funding came for private sources (data not shown). The other interesting finding is that larger organizations are more likely than smaller ones to generate earned income. Given the infrastructure necessary to pursue earned income opportunities, it is perhaps not surprising that larger groups dominate in this area.

Based on these data, three dominant funding patterns are evident among the nonprofit and voluntary organizations surveyed.[24] The largest group of nonprofit and voluntary groups (39.6%) fit a "government-concentrated" funding profile, here defined as relying on government sources for more than 65 per cent of their total income. The next largest group (22.9%) can be described as having a "government-diversified" funding profile, where between 45 and 65 per cent of their total income comes from government sources, but they also depend to a significant extent on other income sources. Lastly, 16.7% of voluntary groups are characterized by their high dependence upon private giving; these groups derive more than 65 per cent of their total income from private sources. Only very few (6.3%) were primarily dependent upon earned income as their major source of income (N=48).

**Figure 4.2: Funding Profiles**


Source of Income
Government Concentrated (39.6%)
Private Giving Concentrated (16.7%)
Earned Income Concentrated (6.3%)
Government Diversified (22.9%)
Private Giving Diversified (7.8%)
Earned Income Diversified (3.9%)

Note: 2.1% of organizations relied in equal measure on the three major sources of funding.
Source: CCSD Funding Study (N=48)

The majority of community benefit groups and organizations serving ethnocultural communities surveyed had government concentrated funding profiles (55.6% and 100% respectively). By contrast, the majority of environmental groups (57.1%) surveyed were "private giving concentrated". Organizations from other subsectors of the nonprofit and voluntary sector exhibited a range of different funding profiles. Larger organizations – those with total annual incomes over $100,000 were more likely to have "government-concentrated" funding, whereas smaller groups were more likely to have a "private giving-concentrated" funding profile (data not shown). Very small samples sizes, however, compromises the generalizability of these data.

### How has the mix of funding sources and mechanisms changed over time?

In Table 4.14, we saw that government was the largest source of nonprofit and voluntary sector funds in 2001: 60.7% of aggregate income came from government sources. This proportion has changed little over the past five years. In Table 4.16, we see that the proportion of government funding has grown slightly between 1997 and 2001, from 58.5% to 60.5%. The proportion of earned income has declined slightly, from 22.8% to 20.4%, while the proportion of private giving has remained essentially unchanged. Similarly, when we look at the patterns of funding dependence, there has been little change in the funding profile of nonprofit and voluntary organizations surveyed. The majority of organizations characterized as "government-concentrated" and "government-diversified" – the two dominant funding profiles, experienced no change between 1997 and 2001 (data not shown).

**Table 4.16: Distribution of Nonprofit and Voluntary Organizations by Income by Source, 1997, 1999, 2001, N=32**

| Income Source | 1997 | 1999 | 2001 |
|---|---|---|---|
| | % of All Sources | % of All Sources | % of All Sources |
| **Government Funding** | | | |
| grants | 8.1 | 5.4 | 4.3 |
| contributions | 34.8 | 42.5 | 44.1 |
| contracts | 15.0 | 10.2 | 8.4 |
| public foundations | 0.3 | 2.0 | 3.5 |
| other govt funding | 0.3 | 0.3 | 0.4 |
| **Subtotal** | **58.5** | **60.4** | **60.5** |
| **Private Giving** | | | |
| individual | 3.5 | 2.1 | 2.0 |
| corporate | 0.6 | 2.1 | 1.9 |
| union | 0.0 | 0.0 | 0.2 |
| endowment | 0.0 | 0.0 | 0.3 |
| sponsorship | 0.2 | 3.5 | 1.9 |
| united way | 3.3 | 3.0 | 3.4 |
| private foundations | 3.4 | 2.6 | 3.5 |
| fundraising | 3.8 | 2.5 | 2.8 |
| other private income | 3.8 | 3.4 | 2.9 |
| **Subtotal** | **18.6** | **19.3** | **18.9** |
| **Earned Income** | | | |
| fees / dues | 5.0 | 4.9 | 4.7 |
| commercial activity | 15.7 | 13.7 | 13.7 |
| investments | 0.6 | 0.6 | 0.6 |
| other earned income | 1.5 | 0.9 | 1.4 |
| **Subtotal** | **22.8** | **20.1** | **20.4** |
| **Other Income** | **0.1** | **0.1** | **0.1** |

Source: CCSD Funding Study (N=32)

There are, however, notable changes within the various major funding sources. Looking at government funding, the aggregate value of grant income and consequently, its proportional share of government funding fell between 1997 and 2001. In 1997, grants made up 13.8% of government funding, falling to 7.0% of government funding by 2001 – a loss of almost 50%. By contrast, the number one source of income – contributions / project funds – continued to grow in importance. The proportional share of contributions grew from 59.6% to 72.5%, an increase of 21.6%. Next, funding from competitive contracts actually fell during this period from 25.6% of government funding to 13.8% over the five-year period. In that there has been an increased emphasis on sources of earned income generally, competitive contracts would not appear to figure prominently for this group of nonprofit and voluntary organizations. The other notable trend within government funding was the growth in the share of funds from public foundations, from 0.5% of government funding in 1997 to 5.8% in 2001. This finding is not surprising in light of the fact that governments are increasingly using public foundations to allocate funds to a variety of nonprofit and voluntary organizations.

For the most part, there was little change in the importance of various funding sources under private giving and earned income, with one or two exceptions. Among the organizations surveyed, the proportion of income derived from individual donations fell between 1997 and 2001, from 18.9% of private giving to 10.4%. At the same time, the proportional share of corporate donations rose quite significantly, from 3.4% to 9.8%, reaching 1.9% of aggregate organizational income in 2001. Similarly, there was a surge in sponsorship dollars, from 0.9% of private giving in 1997 to 18.1% in 1999, and then back down to 10.2% in 2001. This is related to an anomalous spike in income of one of the organizations surveyed. The share of funding from private foundations and fundraising activities tended to oscillate, going down and then up. However, the share of income from United Ways was relatively flat for those organizations in receipt of this funding. There was also little change in both the share of income derived from membership fees and from commercial activities.

We see greater change in the funding mixes of the different subsectors over time. Table 4.17 shows that the funding mix or profile of ethnocultural organizations and social service groups was fairly stable through our five-year period of study. However, the same cannot be said of organizations in other subsectors. For example, the share of income from government among health groups declined between 1997 and 2002, private giving assuming greater importance in the process. The share of government funding among recreation, sports, arts and cultural groups also declined as the share of earned income increased. The funding mix among environmental groups and community benefit organizations surveyed was even more erratic. The proportion of government funding for environmental groups, for example, fell by roughly ten percentage points between 1997 and 2000, only to increase by sixteen percentage points between 2000 and 2002. The increase in project funding – identified above – was clearly one of the key reasons behind the changing mix of income sources among environmental groups.

**Table 4.17: Distribution of Nonprofit and Voluntary Organizations by Source of Income and Subsector, 1997, 2000, 2002**

| Subsector | Source of Income (%) | | | | | |
|---|---|---|---|---|---|---|
| | Health | Social services | Recreation and arts | Environ-ment | Community benefit | Ethno cultural |
| **1997** | | | | | | |
| government | 59.1 | 68.7 | 42.7 | 45.6 | 67.0 | 94.3 |
| private giving | 38.9 | 19.1 | 5.1 | 53.2 | 20.1 | 5.7 |
| earned income | 2.0 | 12.2 | 52.1 | 1.2 | 12.9 | 0.0 |
| **1999** | | | | | | |
| government | 54.1 | 70.3 | 36.0 | 35.5 | 78.4 | 97.6 |
| private giving | 43.9 | 16.5 | 5.9 | 63.3 | 13.8 | 2.4 |
| earned income | 2.0 | 13.2 | 58.2 | 0.9 | 7.8 | 0.0 |
| **2001** | | | | | | |
| government | 52.8 | 65.9 | 34.8 | 51.3 | 74.2 | 96.0 |
| private giving | 45.3 | 22.5 | 6.6 | 47.6 | 10.7 | 4.0 |
| earned income | 1.9 | 11.6 | 58.6 | 1.1 | 15.1 | 0.0 |

Source: CCSD Funding Study (N=32)

The changing proportion of specific income sources is one piece of the financial puzzle. It is also important to consider how the value of these different sources and mechanisms has changed over time as well. We noted above that there has been an increase in the aggregate level of funding for this group of nonprofit and voluntary organizations between 1997 and 2001. Indeed, there has been an increase in the level of funding from each source of income. Over this period, the value of government funding and private giving increased by over half – 55.2% and 52.5% respectively – and funding from earned income sources increased by a third (34.2%). For all sources, most of the increases were registered between 1997 and 1999.

However, the aggregate data obscures some important differences among individual sources of income. The value of grant income fell for organizations surveyed by 20.9%, while the value of contributions increased by 89.7% (data not shown). Aggregate income from public foundations increased by a stunning 1,760.7% between 1997 and 2001, from $60,000 to $1,115,900 in constant dollars. Funding from the United Way also increased for this group of nonprofit and voluntary organizations by 55.5% as did aggregate income from private foundations (53.6%). The total value of corporate donations increased significantly, from $135,600 in 1997 to $593,500 in 2001. By contrast, individual donations fell by 15.9%, from $751,400 to $632,200. All income sources grouped under earned income increased, including income from commercial activities. It is interesting to note that aggregate revenues from earned income were $3,337,700 in 1997, jumping to $4,365,400 by 2002. This group of nonprofit and voluntary organizations appear to have met with some success in expanding into commercial activities.

Overall, these organizations have experienced success in increasing income from various income sources. While they have registered gains in all areas with the exception of grants, competitively tendered contracts, and individual donations, their greatest success has been in sustaining and in fact increasing project dollars even as other sources of government funding fell. The percentage increase in the aggregate value of the other sources may appear large, but funding from contributions continues to dwarf other sources in terms of real dollars and as a part of the total funding mix (see Table 4.15).

## 4.3 Conclusion

In sum, this analysis reveals a mixed picture of the financial health of nonprofit and voluntary organizations surveyed in this study. There has been positive financial gain for most as these organizations have successfully diversified their funding streams.[25] In particular, organizations have been relatively successful in securing project or contribution dollars – both from government and public and private foundations. A significant number have increased their sources of earned income, a select few making headway in commercial ventures. At the same time, the proportional share of earned income declined slightly compared to income from government and private giving sources. Overall, there is a general and sustained shift away from traditional sources of core support for nonprofit and voluntary organizations such as grants, private donations, or even memberships, to project or contract based forms of funding from government and non-government sources.

The large-scale increase in project based funding, and income diversification more generally, is altering the mix and dynamics of funding within the nonprofit and voluntary sector. While the majority of organizations we surveyed posted positive balance sheets, these organizations and the many others to which we spoke reported high levels of financial uncertainty and instability associated with the growing dominance of project based funding and the erosion of support for core organizational tasks and functions. The volatility of their funding was certainly evident as many organizations surveyed experienced surges of project income over our period of study. However, their capacity to carry out and sustain their activities was compromised, according to study participants, by the typically short-term character of project funding, the high costs related to securing and administering these funds, intensive oversight and accountability requirements, and strict limitations on the expenditure of funds. The demands of juggling multiple funding sources have similarly undermined the financial capacity of nonprofit and voluntary organizations. While the experiences of this sample of Canadian nonprofit and voluntary organizations varied by subsector, region and funding mix, concerns about project based funding were paramount among all. Financial growth for many in the nonprofit and voluntary sector through the late 1990s and early 2000s came at a cost. We turn to a detailed examination of these costs in the next chapter.

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## Endnotes

[1] In 1994, places of worship received over 80% of their revenues from private giving and member contributions (Hall and MacPherson, 1997).

[2] The decision to contribute to an organization is a complex one. In 2000, the *National Survey on Volunteering, Giving and Participating* (NSGVP) reveals that almost all volunteers (95%) of all volunteers agreed that the reason they volunteer is to help a cause they believe in. Eighty-one per cent also stated that they wanted to put their skills and experience to good use. A little less than one-quarter stated that they volunteered in order to improve their job opportunities (Hall, McKeown and Roberts, 2001: 43).

[3] It should be noted that many faith organizations are active in the provision ofsocial services, for example, and are subject to the same types of funding pressures as the organizations surveyed in this study. However, we have elected to exclude all faith based organizations to narrow the focus of our study.

[4] According to one study, 60% of all nonprofit and voluntary organizations have one paid staff person or less (Sharpe, 1994: 16).

[5] Other recent studies of nonprofit and voluntary organizations examine the period through the mid 1990s when governments and many other funders were reducing levels of financial support following the economic recession of the early 1990s. The pictures painted in those studies predictably differ, as cutbacks were keenly felt throughout the nonprofit and voluntary sector. The conclusions with regard to global funding trends, however, are similar. (See United Way of Greater Toronto, 1996; Reed and Howe, 1999a; Hall and Reed, 1998).

[6] The percentage of the population who made charitable gifts to organizations was the same in 1997 and 2000, but the total amount of donated increased by an estimated 11%, to $4.9 billion. Donors in 2000 made fewer donations in 2000 than in 1997, but the average value of those donations was higher ($259 in 2000 compared to $239 in 1997) (Hall, McKeown and Roberts, 2001: 13).

[7] In another study, Browne and Landry found that: 64% of groups were involved in organizing events; 50% were engaged in fundraising, providing advice and information, and educating the public; 40% promoted ideas. Only 13% of the organizations surveyed lobbied provincial governments, while 7% lobbied federal and municipal governments. (Browne and Landry, 1996: 22).

[8] We have used the trimmed mean here, that is, the average of the middle 90% of organizations. In this way, we exclude groups with very large staff complements in order to give a more accurate reflection of all groups in the sample.

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[9] Not surprisingly, organizations reporting a decline in revenues between 1997 and 2001 were more likely to report have less than five staff members, or no staff members at all.

[10] According to the NSGVP, most volunteering events and most volunteer hours were directed toward five types of organizations. Arts, culture and recreation (including sports) accounted for the highest percentage of volunteer events (23%) and volunteer hours (26%). These were followed by social service organizations (20% of events and 20% of hours), religious organizations (14% and 16%), education and research organizations (13% and 11%), and health organizations (13% and 9%). Other types of organizations (including environmental groups and international development) accounted for the remaining 17% of both events and hours (Hall, McKeown and Roberts, 2001: 40).

[11] See Howe and Reed, 1999b; Social Planning Council of Ottawa-Carleton, 1998; Municipality of Metropolitan Toronto, *et. al.*, 1997.

[12] The trimmed mean was used here again to derive the average number of volunteers among organizations surveyed.

[13] Because the fiscal years of participating organizations differed, these data may represent 2001-02 or 2001. We have elected to use 2001 in the text to refer to the last fiscal year.

[14] See Mark Alan Hager, "Explaining Demise Among Nonprofit Organizations," PhD Thesis, Department of Sociology, University of Minnesota, 1999. This study reports on the closure of nonprofit organizations and explores the variety of explanations as to why. Drawing on a variety of analytical techniques including extensive interviews and event history analysis, the author concludes that being small and/or relatively young are "risk factors" for organizational failure. Similarly, loss of key personnel and the liability of expanding programs and organizational capacity beyond the capability of management also threaten the sustainability of nonprofit organizations.

[15] Brown, Troutt and Boame state that the 101 Manitoba-based nonprofit organizations surveyed in their study had expenditures ranging from $1,000 to $3.5 million with average expenditures of approximately $365,000 and a median expenditure of $150,000 (Brown, Troutt and Boame, 2000: 203).

[16] Betsy Troutt and Laura Brown conducted a similar survey of nonprofit and voluntary organizations in 1995. In their sample of 101 groups, 39% had revenues of less $100,000, 47% had revenues of between $100,000 and $499,999, and only 15% had revenues greater than $500,000. See note 15.

[17] We asked participants to give us financial information for the most recent fiscal year, and then two years ago, and five years ago. Because the fiscal years of all of the organizations differ, financial information for the most recent fiscal year may be for 2001 or 2001-2002. There will be similar discrepancies between data for two years ago (1999 or 1999-2000) and five years ago (1997 or 1997-98). In the text, we use 2001, 1999 and 1997 for simplicity's sake.

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[18] Real GDP grew between 1997 and 2001 by 16.4%. At the same time, the consumer price index rose 8.2 points (Statistics Canada, *Canadian Economic Observer*, Historical Data Supplement 2000/01, July 2001.)

[19] In a 1996 study, Browne and Landry also showed the extensive range of income sources among nonprofit and voluntary organizations. Our own analysis of the 1999 charities data reveals that organizations in our survey have greater involvement with government funders than reported by Browne and Landry: 87.5% in our study compared to 79% in this study. There were notable differences in the reliance on individual donations (56.3% compared to 84%), United Way income (33.3% compared to 3%), fundraising revenues (60.4% compared to 82%), and commercial activities (37.5% compared to 50%) (Browne and Landry, 1996: 31).

[20] It is very difficult to ask for and receive complex organizational financial information on a survey instrument of this type. The authors made a decision to ask about 19 different possible income sources, cognizant that this approach would result in a bias towards greater funding concentration.

[21] The proportion of government funding at 60.7% is equivalent to the estimate presented in Hall and MacPherson based on 1994 charities data (Hall and MacPherson, 1997).

[22] David Sharpe found that corporations provided roughly 1% of nonprofit and voluntary sector revenues in 1994 (Sharpe, 1994).

[23] Please note that arts and cultural organizations tend to rely more heavily on government sources for income than do recreation and sport groups. In 1994, arts and cultural charities derived 50% of aggregate annual income from government sources, 10% from private giving, and 40% from earned income sources such as box office receipts. Recreation groups received 27% of aggregate income from government, 15% from private giving, and 58% from earned income. These differences have been hidden because we have had to collapse these two subsectors for the purposes of our analysis. (Hall and MacPherson, 1997).

[24] Hall presents a typology of funding profiles in his 1995 article, "Funding Charities: Dependency on Government and Implications of Cutbacks." He divides charities into four groups: government-concentrated funding; government-diversified funding; earned income-diversified funding; and donations-concentrated funding.

[25] Organizations working in the arts, culture, sport and recreation field and those serving ethnocultural communities were more likely to have experienced income losses between 1997 and 2001 according to our survey data.

# Chapter 5: How Funding Trends are Affecting Nonprofit and Voluntary Organizations

The inherent instability of the emerging funding regime is fundamentally altering the ways in which nonprofit and voluntary organizations pursue and support their mission. As the principles, norms and rules that frame the actions of nonprofit and voluntary groups change, so too does the calculus of resource generation. Nonprofit and voluntary groups are forced to re-evaluate a number of issues critical to their sustainability, including income generation strategies and the mix and source of funding and other in-kind supports. More broadly, the emerging funding regime is calling into question the ability of nonprofit and voluntary organizations to pursue their mission and the ways in which groups organize to pursue these goals.

Of the host of factors that determine the capacity of organizations to realize their mission – everything from the vision of leaders and the strength of connections to the community to the experience of staff and volunteers – the composition of funding sources and mechanisms provides a critical *context* within which nonprofit and voluntary sector decision-making takes place. Succinctly stated, "organizations are constrained by the environment as a consequence of their resource needs" (Froelich, 1999: 247). Organizations that are heavily dependent upon external sources of funding – as most nonprofit and voluntary sector organizations are – are consequently forced to manage and/or struggle with the demands of funders in their pursuit and management of funding opportunities and their organizational goals more broadly. Increasing demands for service, rising costs, more diverse constituencies, increasing regulatory and legislative oversight, complex funding and reporting requirements, the expectations of staff, members, and clients, as well as the public, have all contributed to the growing pressures on nonprofit and voluntary organizations.

This chapter looks at the impact of the Canada's new funding regime on nonprofit and voluntary organizations, drawing upon our extensive consultations with nonprofit and voluntary organizations and our written survey. First, we examine the impact on the financial capacity of organizations to generate and manage their resources. Following this discussion, we explore the ramifications of heightened financial uncertainty and volatility for human resources, programs and beneficiaries, governance, and organizational autonomy and advocacy. In sum, our findings suggest that the impact of funding reforms has been significant. The largest group of nonprofit and voluntary groups surveyed (43.9%) indicated that changes in revenue sources and funding arrangements had had a moderate impact on their groups. Three out of ten (29.3%) were struggling with significant or high levels of change related to the changing funding environment, while one-quarter (26.8%) reported low levels of change (N=41). Organizations that were dependent upon government for more than 65% of their funding – those that were "government concentrated – were much more likely to have experienced significant impacts related to changing funding practices compared to organizations with other funding profiles. Similarly, "government diversified" groups were also more likely to have experienced high impacts.[1]

Nonprofit and voluntary organizations are actively engaged in this process of change, trying to articulate a new role within this changing funding environment as we document in this last section of this chapter. But it would be a mistake to suggest that they are engaging with their funders as equal partners in this enterprise. To date, funders have set the terms of the debate – terms which nonprofit and voluntary organizations argue are undermining their capacity to meet mission. Certainly, the tensions that nonprofit and voluntary organizations are experiencing do not exclusively stem from funding dilemmas, but funding pressures are at the root of current struggles to meet mission. The contradictions between the stated intent of funding reform and its impact on individual organizations and the sector as a whole – and the frustrations arising from them – were apparent in the many stories nonprofit and voluntary groups told us.

## 5.1 How are funding trends affecting financial capacity?

The emerging funding regime in Canada is altering the financial capacity of nonprofit and voluntary organizations, according to participants in this study. Organizations have had success in diversifying their sources of income and in particular have been successful in securing new project-based funding, primarily from governments. At the same time, they have experienced a decline in sources of "stable" or "core" funding. The resulting financial volatility and uncertainty is evident in their day-to-day activities and is a driving force behind efforts to refocus strategies of income generation and deployment and to shore up financial capacity. Similarly, the increasingly competitive funding environment and the pressures of commercialization are affecting individual organizations in ways that are not yet fully understood. The question is whether the winds of changes sweeping through the nonprofit and voluntary sector are threatening the capacity of these same organizations to pursue their missions and consequently, undermining their contribution to Canadian society.

In this section, we look at the financial capacity of the organizations that participated in our study and their daily struggles to make ends meet. Of the many forces influencing the financial situation of nonprofit and voluntary organizations, the impact of the shift away from "core" or "organizational" sources of support to more contingent forms of funding has been critical, according to study participants. Among survey respondents, seven out of ten (70.8%) reported that they had experienced this shift (N=48). Overall, organizations characterized an average of 61.6% of their total funding as "project or program funding," 25.7% as "core" funding, and another 8.1% as "other."[2] While other sources of income remain important, especially for groups with an historic attachment to the private market, the dominance of project funding is now well established.

The shift away from core or organizational sources of support has heralded other changes in the financial situation of nonprofit and voluntary organizations. A significant majority of organizations (84.8%) stated that, compared to five years ago, there were more conditions attached to the receipt and expenditure of funds, from government sources (56.4%) and from non-government sources (10.3%). (One-third of organizations (33.3%) stated that there were more conditions attached to both government and non-government sources of funding; N=39). Three-quarters (76.0%) reported that they had specifically experienced restrictions in their ability to fund operational or "core" functions such as management and governance related to new funding practices over the past five years (N=50). As well, they noted a trend to shorter funding terms. On average, 69.5% of their total funding was for a term of one year or less, while an average of 30.5% extended beyond a year. Indeed, for six out of ten organizations (59.1%), over 75% of their funding was for a year or less (N=44).

What, then, have these changes meant for the structures, activities and overall goals of nonprofit and voluntary organizations?

### Organizations are working harder to find and secure funding.

Current funding trends have had a significant impact on the organization of work within nonprofit and voluntary organizations. A large number of organizations reported an increase in the both human and financial resources necessary to pursue organizational revenues: 87.5% of organizations reported an increase in the "cost" of acquiring donations (N=48); 92.0% of participants reported an increase in the "cost" of acquiring grants and contributions (N=50); and 45.9% of participants reported an increased in the "cost" of acquiring competitively tendered contracts and/or establishing other sources of earned income (N=37).

Many participants made the observation that the increasing costs and subsequent difficulties in pursuing and administering financial resources are inextricably linked to the increasingly competitive funding environment. "It takes twice as much work to make not as much money and I see some of that as competition from other agencies for the same pot of money – so we're tapping out because of competition" (FG: CS-NB). Certainly, competition for donations and volunteers has always been a part of the nonprofit and voluntary sector, but the level of competition today has increased. Today, there is acknowledged competition for all manner of funds, volunteers, staff, clients, and public recognition, in addition to donations. The majority of respondents stated that they faced increased competition from other nonprofit and voluntary organizations (89.4%, N=47), and more recently, other governments or quasi-public institutions such as hospitals and public foundations (63.0%, N=46). Some groups are competing with for-profit service providers as well (46.3%, N=41).

Competition for funds is now an integral part of the lives of nonprofit and voluntary organizations. Competition for donations was the most prevalent form of competition as reported by survey respondents; 88.1% of respondents reported increased competition for donations (N=43). As public and private funders have cut funding levels and/or more strictly targeted their resources and increased the conditions attached to their funding (discussed below), the premium on donated dollars has risen exponentially. Moreover, organizations that historically had stable support from government, such as hospitals and universities, are now competing very successfully for donations. Indeed, government foundations are now launching their own fundraising appeals. These larger quasi-public charitable institutions have completely changed the scale and scope of nonprofit and voluntary sector fundraising. "The hospitals are doing a lot, a lot more fundraising over the past few years and they have these big machines, huge staffs …" (FG: CS-NB). In the marketplace for donations, many community-based organizations, particularly those that are not able to issue charitable receipts, are being sidelined.

The competition for donated dollars is fierce precisely because these funds are relatively untied, as we noted in Chapter 2. Donations for the most part can be directed to supporting the core work of the agency or areas that have not received support elsewhere. But they are very unstable, trending up and down with local and national economic fortunes and, for many organizations, have never made up a significant portion of the funding, certainly not for the majority of groups surveyed in this study. By contrast, funding from earned income sources and from grants and contributions – from both government and non-government sources – can be a more significant and potentially stable source of funding (i.e., longstanding purchase of service agreements). Yet, the trade-off in terms of the costs associated with establishing and sustaining these funding streams is very high.

Competition for grants is particularly intense as grant monies more closely approximate donations in that organizations are able to use these funds as they see fit to undertake a project or support other organizational activities; 81.8% of those surveyed reported increased competition for grants (N=43). However, the majority of respondents noted that the pool of grant money available has shrunk considerably as governments in particular have turned to other funding mechanisms. The grants that are available tend to be set aside for new initiatives rather than for ongoing organizational support. As well, grant applications are complex and tend to favour organizations with established track records – a common characteristic of contribution and contract funding as well. With the exception of arts and culture organizations that continue to rely on granting agencies such as the Canada Council, many groups in our study noted that applying for grants was simply too time-consuming and costly given the likelihood of receiving support – however desirable. This sentiment was also expressed about United Way/ Centraide and foundation funding in many parts of the country.

Given the limited availability of grant funding, contributions and contracts are increasingly seen as the "only game in town". These funding vehicles are the most common form of sector support; project funding typically takes this form. As such, nonprofit and voluntary sector organizations have little choice but to compete for these types of funds.[3] "The lack of stable funding often makes it hard for an organization to avoid being diverted by chasing project money, attached to priorities determined by the funder rather than by the organization or its constituency, and to stay true to its mission with the ability to undertake long-term and strategic planning" (Hossli, 2001: 14). As one respondent from Québec wrote: "Nous travaillons constamment a préparer ces collectes de fonds, a remplir des demandes de subvention, a demander des commandites a fin d'assurer le financement de notre mission par l'entremise de nos activités" (#28). The disproportionate amount of time devoted to searching for and securing funds, especially project-based funding, predictably detracts from other organizational activities. One survey respondent commented that "[m]anagement spends significantly more time on identifying, securing and reporting on evaluation and innovation. Government, foundation and partnership reporting is enormous. In some programs, it is a ratio of 6 to 1 for securing and reporting versus service delivery" (#26). Another said, "A significant amount of time is used to find sustaining funds for project grants. Time could be better spent in other areas if operational funding was stable and from all levels of government" (#6).

Increased competition is also having an impact on nonprofit and voluntary organizations as they adopt more market-oriented approaches to the acquisition and management of funds. The impact of commercialization is pervasive in the sector, reflected not only in the growing prevalence of earned income and commercial activity, but in the embrace of private sector methods, tools and approaches to improve performance, efficiency and impact. By and large, nonprofit and voluntary organizations have been receptive to the private market message as they search for ways to improve and enhance their programs and services. They are similarly aware of the pitfalls to such strategies, not least of which is threat to the culture and ethos of nonprofit and voluntary activity. We discuss these issues in greater detail below.

### Organizations are experiencing significant administrative difficulties stemming from the timing and coordination of projects and other organizational activity.

The continual and competitive pursuit of funding is one of the most visible signs of the pressures arising from the new funding regime. The time and effort involved is clearly affecting the work of nonprofit and voluntary organizations, according to our study participants. The actual process of securing, coordinating and reporting on project funding and other organizational activities is also posing significant administrative challenges for organizations, affecting all aspects of daily operations. The project funding model works smoothly in theory, but rarely in practice. That is to say, the time involved in preparing proposals, waiting for approvals, submitting revisions, waiting for final approval, and then receiving at least a portion of promised funds can be very lengthy, thus undermining the integrity of the programs and the organizations involved. The time involved in the operating and reporting phase of projects can also vary enormously and are similarly complex and difficult. According to Kirsten Gronbjerg, "these phases, and the associated tasks or work dimensions, rarely coincide for the different funding sources. Nor do they appear to relate in predictable ways to the size of the grant or governmental levels involved. This diversity constitutes a central aspect of the complexity that nonprofit managers face on a continuing basis" (Gronbjerg, 1991: 14).

Looking at the process of proposal writing, for example, the benefits of thinking through project work and identifying outcomes is undermined by the process itself. Preparing proposals can be very time-consuming, with no guarantee of success. Organizations surveyed for this project typically spend weeks – if not months – preparing proposals. Depending upon the amount of time between the due date for a given proposal and the start date of the project, actually crafting a proposal to dovetail with existing organizational work can be very difficult. If the preparation period is too long, it can be difficult to plan coordinated services as a great deal can change over the period. But if the preparation period is too short – a situation much more frequent among our study participants – no planning occurs at all. One participant talked about a government department that asked for a proposal with a day's notice as the department was preparing to lapse funding for the fiscal year. This wasn't an uncommon experience. Such a situation fosters cynicism among nonprofit and voluntary organizations and creates enormous strain in the relationships between funders and recipient organizations. More importantly, a highly dysfunctional project or program contracting process directly affects the quality and efficacy of the proposed program or activity.

The difficulties related to preparing proposals under these timelines, however, often pale in comparison to the difficulty in actually delivering and reporting on a program before year-end, particularly if time is short. Many focus group participants spoke about their frustration with funders that indicated their intent to sponsor certain projects or programs and then delayed posting a Request for Proposals (RFP) and processing the proposals that came in. Indeed, there is often considerable delay between the due date for proposals and the date when successful and unsuccessful applicants are notified, and then between the date when a proposal has been accepted and a formal contract is prepared and signed. This was a common complaint among the ethnocultural groups surveyed for this study who noted the excessive delays in applying to government for project funding. In instances when project funds must be spent by year end, these delays eat into program time with predictably negative consequences for program quality and beneficiaries. As attention to monitoring and verification has increased, participants across the nonprofit and voluntary sector have noted an increase in time related to processing project applications. One of our case studies noted that the median weeks between proposal acceptance and contract signing for their projects in the last fiscal year was 26 weeks!

The point about contract signing is very important because organizations are prohibited from starting a project – even after being notified of proposal acceptance – until a formal contract is signed. Certainly, no expenditures can be made before this date; that is, organizations are prohibited from submitting bills for their services during this period. From an organizational point of view, it is very difficult to line up staff and resources without a firm commitment from funders. Moreover, the uncertainty of this situation makes it difficult to access credit or other funding sources again without signed authorization from the funder. Organizations, staff, clients and beneficiaries are left in limbo often for weeks waiting for final approvals. As time passes, the quality of the service or program is undermined as organizations are left in a financially untenable situation. This is not just a problem in launching a new project or program, but is also occurs if and when organizations negotiate contract renewals, a process that Smith and Lipsky refer to as the "dance of contract renewal" (Smith and Lipsky, 1993: 157). Indeed, the increasingly short-term character of funding compounds these problems as organizations are constantly in the process of seeking and negotiating project funding.

These problems are endemic in matching funding arrangements as well. In our survey, 61.2% of the organizations were involved in these funding mechanisms. Overall, study participants viewed the increase in these types of arrangements with ambivalence. Less than a third (28.9%) of organizations stated that these arrangements were desirable from their perspective. Most agreed that "collaboration and partnerships with other stakeholders are advantageous and can yield some excellent work" (#21). Yet, the amount of work involved in putting funding packages together and the instability of these arrangements pose real problems for nonprofit and voluntary organizations (See Chapter 6). One participant stated: "This approach is great as long as there is one who funds for 60% at least; otherwise it is timely and lacks security" (#31). Another from an ethnocultural organization noted that matching funding programs effectively screen ethnocultural and visible minority communities out, as they do not have the ability to raise funds in the private sector, the prerequisite of many funding programs.

These pressures are particularly acute in situations where organizations are juggling multiple funding sources and mechanisms. The increase in the number of income streams has led to a corresponding increase in funding criteria and conditions. Focus group participants reported difficulties in satisfying the often contradictory needs of different funders. Managing the separate relationships with funders is costly, as each income stream requires considerable management and evaluation effort. Focus group participants noted that it was not uncommon for funders to ask for highly detailed project reports or the time sheets of project staff to verify their participation in and time allotment to the project. Income diversification may well be insulating nonprofit and voluntary organizations from the pressures of a single funder or donor. However, it has not protected organizations from the stresses and administrative complexities of resource acquisition and management today.

### The inflexibility of project funding is severely restricting the ability of organizations to conduct their work.

Project or contract funding also undermines the financial stability of organizations by limiting the ability of organizations to fund administrative or "core" functions such as management, governance and the like. This adds another layer of administrative complexity, challenging organizations to find or reallocate funds to tasks essential to the organization's operation. As we note above, 76.0% of organizations surveyed reported that they had specifically experienced restrictions in their ability to fund operational or "core" functions, such as management and governance, related to new funding practices over the past five years (N=50). Two-thirds of organizations (65.3%) commented that the increase in conditions attached to funding had directly resulted in decreased flexibility in managing project and organizational funds (N=49). "How can you … fund the executive director of an organization if you can't include part of their salary in your project" (FG: CS-NB).

Successful programs and services depend upon successful organizations. And successful nonprofit and voluntary organizations rest on an infrastructure of supports, both tangible and intangible. Dedicated and skilled staff, sound management, effective and accountable governance, and financial and data systems tailored to the needs of the organization are all important in supporting an organization's activities. As well, it is necessary to foster and support connections to the membership, clients and beneficiaries and to the broader community in order to remain relevant and effective. The legitimacy of nonprofit and voluntary organizations is reflected in the strength of these kinds of connections, yet these activities are not "easily itemized, individually costed or directly attributable to specific programs" (Eakin, 2002: 2).

Study participants were definitive about the frustration related to their inability under the terms and conditions of many funding agreements to charge, much less recoup, the real costs of the contracted programs. Moreover, the trend towards fixed price contracting is compounding these difficulties year over year. The ramifications for nonprofit and voluntary groups are enormous. The project funding model, in effect, eats away at the sustainability of the group, as programming is pared to the bone, important organizational activities are dropped, capital and infrastructure costs deferred – all in an effort to cover off non-program costs not recognized in fixed project budgets.[4] Organizations are forced to engage in "creative accounting" practices, allocating as much of their administrative costs to project budgets as possible and/or inflating the value of in-kind contributions, all to pare down reported administrative costs. The prohibition against funding administration or core organizational costs directly undermines the viability of programs and ultimately, the sponsoring organization.

### Nonprofit and voluntary organizations are experiencing acute cash-flow problems.

All of these pressures are adding up to acute cash-flow problems in many nonprofit and voluntary organizations. Two-thirds (66.0%) of the organizations surveyed reported cash-flow problems related to the project funding regime (N=50). Many nonprofit and voluntary organizations have modest assets, largely in the form of furniture, office equipment and the like. They do not tend to carry substantial financial reserves.[5] Indeed, a few charitable groups have endowment funds but these funds are typically reserved for select purposes. Boards of directors are usually loath to use reserves to offset the operating costs of organizations. Without access to a significant line of credit, delays in signing contracts and delays in making payments on time, can and does threaten the continued viability of nonprofit and voluntary organizations.

Above, we noted that funders – in many cases governments – are increasingly slow in signing project contracts and as a result, organizations are not in a position to bill for costs related to project start-up or operation for weeks after the formal project start date. Delayed payment systems similarly present organizations with major cash-flow problems. Many groups spoke of not being able to make payroll on several occasions. One executive director of a sports organization stated that he had taken a second mortgage out on his home in order to meet payroll while waiting for overdue payments. The stress related to this kind of financial brinksmanship is severe. Setting aside the fact that organizations potentially forego interest income when they are forced to backfill project funding from other sources, in so doing, nonprofit and voluntary organizations are providing interest-free loans to project funders. The irony of this situation is not lost of nonprofit and voluntary organizations.

Juggling cash flow is part of the necessary skills needed in management of nonprofit and voluntary organizations. Managers, hemmed in on all sides, are called upon to creatively manage organizational affairs in situations where amounts owing can often exceed total revenues in any given month to a significant degree. Certainly the active pursuit of unrestricted funding is critical to undertaking project work under these conditions. Others undertake income activities where they can reasonably expect to generate a surplus to apply to administrative or core costs other funders refuse to pay for. When donations fall short, organizations are often forced to exploit volunteers and paid staff to adjust to funding contingencies. For example, organizations leave positions unfilled, or deliberately under staff projects, all in an effort to save on labour costs – the largest line item in nonprofit and voluntary sector budgets. Administrative budgets are pared down, meetings of boards of directors are cut back, community outreach is curtailed, services and staff are outsourced. Managers are also forced to employ a host of other tactics to fund administrative costs excluded from project budgets by allocating as much administration to signed projects as possible and/or inflating the value of in-kind contributions. (We discuss these different strategies below.)

It is important to note that funders are well aware of the "technical" difficulties that current funding arrangements present, and indeed, accept in some instances the strategies that nonprofit and voluntary organizations employ to make ends meet. Laura Brown and Betsy Troutt quote an executive director in their study of Manitoba nonprofits about this game of complicity:

> I'm funded by [a program] to work full time [on their project]. They know darn well that I'm also the executive director of [this organization] because I apply to them with that hat on for other funding for other work … I have a formal relationship with them in that role. It ain't no secret. Nonetheless, the reality is that I probably spend half my time doing the [project that is funded by them] and half my time being executive director"(Brown and Troutt, 2000:16).

Among participants in our study, there was a global sense that funders did not seem to appreciate or care about the problems associated with current funding practices. Some felt that funders, specifically governments, were not only aware of financial difficulties associated with current funding practices, but that they deliberately exploited the project funding system in order to solve their own fiscal problems, seeking out contractors that were able to withstand these hardships. Smith and Lipsky make a similar point in their discussion of the system of social service contracting in the United States:

> "Nonprofits are virtually *expected* to cope with erratic revenues, underfunding and slashes to established budgets. One might say that through contracting, nonprofit agencies are enlisted into an alliance with government to manage the failures of the public sector to deal with clients reasonably and consistently" (Smith and Lipsky, 1993: 156).

As a result, relationships with funders were very strained. Speaking about the growing intensity of financial and program reporting, one participant said: "Relationships have deteriorated between the bureaucrats from the funding agencies and front-line workers. As accounting rules have changed, relationships that may have taken years to build are strained" (FG: E).

The prevalence of "financial administration" problems among the nonprofit and voluntary organizations participating in our study was startling. Across every sector, organizations reported significant challenges in generating and administering financial resources related to the growing prevalence of project-based funding, increased targeting, and tighter funder controls over the content and operation of projects and organizations. The troubles outlined above are not the product of mismanagement on the part of poorly trained managers in nonprofit and voluntary organizations, although that is sometimes the charge and indeed is sometimes the case. And while undoubtedly more can be done to enhance management and training in the nonprofit and voluntary sector, these problems described are much more systematic (Smith and Lipsky, 1993: 156). The costs of current funding practices to organizations – reflected in high levels of stress, staff turnover, demands on management, and the very high unfunded costs related to acquiring and operating projects – are prohibitive, creating a world of uncertainty and ambiguity that is undermining the overall sustainability of many organizations.

"Administrative difficulties" is really a euphemism for a set of profound changes under Canada's emerging funding regime. The difficulties that nonprofit and voluntary organizations report in securing and pursuing their organizational activities, enumerated above are perhaps only overshadowed by the difficulties these same organizations are experiencing planning for the future. As one participant noted: "Unstable and hence unsustainable funding sources and streams are leading to difficulty in planning and strategic directions and budgets" (FG: E). Indeed the generally volatile and uncertain funding environment associated with these funding practices is driving a wedge between organizations in the nonprofit and voluntary sector that have the resources to cope with regular administrative delays and the many that do not. The theme of polarization is one that we will return to below as we examine the impacts of the new funding regime on human resources, governance and organizational autonomy.

Nonprofit and voluntary organizations are living on the edge. One organization summed it up this way: "About two-thirds of our annual revenues come from our program activities. These are all project financed and depend upon our marketing ability, professionalism and creativity. Our capacity in all three areas has increased over the past five years, but it is still a terrific strain to maintain funding and momentum" (#25).

## 5.2 How are funding trends affecting staff, programs and beneficiaries, governance and organizational autonomy?

The impact of funding touches all aspects of operation. The struggles to piece together project funding, commercial contracts and annual fundraising efforts also directly affect staff and volunteers, and programs and clients. The reorientation of the organization around the exigencies of funding similarly affects governing structures and the capacity of nonprofit and voluntary organizations to represent the interests of their members and beneficiaries. We turn to a discussion of these impacts below.[6]

### Organizations are experiencing heightened stress and turnover among staff and increased difficulty in recruiting and supporting volunteers.

Focus groups across the country spoke about the impact of funding reforms on staff and volunteers, both for the individuals involved and for the organizations' goals. The stress associated with the uncertainty of funding for nonprofit and voluntary organization took a very high toll on all members. Focus group participants spoke about the high rate of burnout particularly among staff. Poor wage levels and lack of benefits – documented by Browne and Landry (1996) and McMullen and Schellenberg (2002) – offer little compensation for employees attempting to serve clients and beneficiaries, often under difficult circumstances. Moreover, nonprofit and voluntary groups reported that reliance on contract staff or job creation programs was a huge barrier in their efforts to establish stable, high quality programming. For nonprofit and voluntary organizations, the insecurity of staff tenure related to project funding seriously undermines their ability to meet mission. The theme of human resources was in fact identified most frequently in our focus groups as a major problem for the nonprofit and voluntary sector: "The deterioration of employee quality of life is a real concern" (FG: CS-N). "Staff are working longer and harder with no compensation – burnout results, especially among those who are balancing work and family" (FG: CS-NB).

Overall, over 93.9% of those surveyed reported that they were experiencing greater demands on staff and volunteers in terms of time and resources related to changes in the funding environment (N=49). According to the executive director, "you never get ahead". You staff up one project only to turn around and find that it is time to hire again as approval for another initiative comes through. In the meantime, the staff from the first project are already looking for future employment. As a result, "[b]ecause of the change in project funding, we have experienced a high turnover in staff. We have lost some very competent and reliable people" (#43). Specialized staff members, including managers and financial personnel, are particularly hard to keep. Six out of ten organizations (60.5%) surveyed reported that competition for skilled staff had increased (N=43). Focus group participants reported that competition for new graduates was also very difficult. Students today are coming out of school with higher levels of debt. Many graduates are no less idealistic about the possibility of working with an environmental group or community theatre. However, the instability and poor wages constitute real barriers for young people as well. Overall, "[it is] hard to find skilled staff willing to come on contract – [they are] looking for more" (#39). The rates of pay, lack of benefits, and heavy workload make it very difficult to compete against public or other private sector employers – especially in instances where project funds fall short of project objectives and/or administrative costs are pared to the bone if not excluded altogether. "Corporations, governments and non-profit groups have poached some of my best staff since they offer major salary increases" (#25). While employment in the nonprofit and voluntary sector is often very interesting and rewarding, drawing people committed to public benefit work, employment conditions are a real barrier for organizations in their pursuit of mission. "Often we have to pay people much less than they are worth. Warm feelings can only go so far and staff turnover can impact clients" (FG: CS-NB).

Other studies of nonprofit and voluntary groups have emphasized the inherent tension between management and staff that can result from project funding, including pressures to contract out and reduce staffing costs on the one hand, and pressures toward greater professionalization (discussed below) on the other (Howe and Reed, 1999a). Participants in our study stressed that there were high levels of stress in their organizations, but tension of this sort was not extensive. Half of those surveyed (52.2%) reported heightened tensions between management, staff and volunteers (N=48). In most instances, management tried very hard to create meaningful and secure employment opportunities, bridging projects whenever possible. In situations where project funds were fairly secure – in cases, for example, where purchase of service agreements rolled over year to year – organizations did try to offer permanent positions to a core of staff members. But even these positions, according to participants, tended to have lower rates of pay than comparable public or private sector employment and little by way of benefit coverage.[7] To make matters worse, respondents lamented that they were rarely able to secure funding for pay raises; funders were very reluctant in multi-year funding agreements to make provisions for cost of living increases for labour or program costs; nonprofit and voluntary groups are expected to deliver up the same service for the same price year after year. Indeed, one social service agency noted that many organizations did not even have the basic funding to meet their obligations to staff set out in pay equity legislation. In this instance, organizations are forced to seek other funds – from the United Way/ Centraide for instance – to underwrite the costs of their government sponsored project work.

In sum, participant organizations deplored what they saw as the growing divide in nonprofit and voluntary workplaces. "It comes back to not just poor benefits but the people who never even get them. So you develop a whole class of folks who live from one twelve month contract to the next. You then have staff spending the last quarter of the [project] contract time wondering if they will be the next casualty or not" (FG: CS-NB).

In response to the insecurity of funding, many organizations have felt compelled to invest in "development" staff. Historically, nonprofit and voluntary organizations have relied on volunteers including board members to fundraise for the organization. But increasingly, many of the groups that we interviewed noted the pressure to hire or contract for "professional" fundraising talent. Yet in an environment where there is acute pressure to minimize administrative costs, hiring someone devoted strictly to fundraising is beyond the reach of many nonprofit and voluntary groups. (Indeed, hiring any administrative staff can be difficult.) Fundraisers can and do provide important services to nonprofit and voluntary groups, but success is not always assured. One of the case study organizations hired two development officers. The executive director and the board of directors felt very strongly that this was necessary to secure funding particularly from the corporate sector. Yet when asked if the organization had carried out a cost benefit analysis of devoting one-quarter of their staff to fund development, the executive director replied: "No. I simply don't want to know."

We also asked study participants about pressures to hire staff with professional credentials. There are a number of factors behind what has been called credentialization. The process of credentialization and professionalization more broadly, is part of a larger process of formalization and organizational change associated with the maturation of organizations. Changing ideologies and ethics of practice also contribute to the growing emphasis on professionally trained staff in nonprofit and voluntary organizations. And some funders are now exerting pressure on potential service providers to hire "professional" staff for certain positions, extending greater control over program content (Howe and Reed, 1999: 49-50). Similarly, there are demands for professional management personnel as well as people to carry out program evaluations and organizational development. Where once managers rose from the ranks of nonprofit and voluntary groups, professional managers are now being hired to manage the demands of an increasingly complex funding environment.

Generally, many nonprofit and voluntary groups spoke about the need to enhance the skill level of staff in the sector, particularly among managers, in order to respond to the increasing scale and complexity of work. As well, the demands from funders for evaluation and quality assurance were important factors behind their search for more highly educated staff and the commensurate increase in staffing costs as well. Yet, this wasn't the case for all of the organizations involved in ours study: only half (49.0%) reported increased pressure to seek out staff with higher credentials in order to compete for funds (N=49). But the trend was evident among the larger groups in our sample.

Nonprofit and voluntary organizations across the various sectors talked about the dangers that "professionalization" poses for their work, and ultimately, legitimacy. There is a real tension in organizations between their voluntary roots – and by extension, the continuing role of volunteers – and the demands of program and service delivery today, a tension that is difficult to negotiate. The pressures and complexities of the new funding regime, in effect, work to compound tensions. One family service organization from British Columbia provided a good illustration of this point. As part of service rationalization in the province, the provincial government is moving to contract with accredited organizations for a range of social services. Organizations must secure formal accreditation to be considered for program contracts. This means that, among other things, successful organizations must have staff complements that meet established educational criteria and have sophisticated systems of financial administration and accounting. For this one organization, acquiring accreditation has been a very positive move in their pursuit of financial resources; it won a large service contract over two other competitors.

At the same time, the push for credentialism can marginalize staff members who do not have the necessary educational degrees but may offer extensive experience with the community and clients. Similarly, the transformation of an organization from a "church basement operation" to a modern service organization can circumscribe the role of volunteers. This conflict goes to the heart of an organization's role in providing service and in serving as the bridge between various interests, groups, and individuals within the community. That said, the conflict over credentialism was evident among social service and health organizations involved in the study, but did not seem to be an issue for other groups. Certainly, environmental groups and those serving ethnocultural communities did not experience the pressures of credentialism in the same way, and tended to draw more extensively on their volunteers to carry out their project and advocacy work. Credentialism appeared to be a force widening the divide between groups engaged primarily in human service delivery under contract to government.

Finally, we look at the impact of the emerging funding regime on the role of volunteers. Growing financial uncertainty and resulting pressures on paid staff have spurred increased competition for volunteers. Again, six out of ten groups surveyed (60.5%) reported increased competition for volunteers (N=43). Volunteers fill critical positions in many nonprofit and voluntary organizations, not least of which as board members and fundraisers.[8] They can also play a role in offsetting revenue or resource needs and/or reducing organizational costs. Certainly, nonprofit and volunteer organizations are turning to their volunteer base increasingly for support in their efforts to pursue their goals "to do more with less."[9] Some of the organizations participating in our study relied extensively on volunteers in their project work. But they also noted the increased difficulty in doing so.[10] Recruiting, training, and retaining skilled volunteers is very time-consuming and costly. Many said that they did not usually have difficulty in recruiting volunteers on a one-time basis, for an annual fundraising drive for instance. But it was much more difficult to secure a long-term commitment and to provide the necessary support. This was particularly true among the smaller organizations surveyed – those that tended to rely more heavily on volunteer labour to start with – and those that needed volunteers to work with clients or to undertake skilled work, such as accounting. Organizations need to provide an infrastructure to support volunteers and to establish a real connection between volunteers and the organization. The irony is that chronic underfunding, linked in no small part of the belief that volunteers subsidize the operation of a broad range of nonprofit and voluntary groups, is undermining the capacity of organizations to recruit and retain the volunteers that they so desperately need.

### Current funding trends are threatening the viability of programs and services, and consequently, affecting the interests of clients and beneficiaries.

The success or failure of funding reform, from the perspective of nonprofit and voluntary organizations, is ultimately measured by its impact upon their programs and services, and upon the people they serve and represent. Funders have pushed forward with funding reform for a variety of reasons, including enhanced program efficiency and accountability. The introduction of results-based management, for example, is a clear reflection of the desire to reorient nonprofit and voluntary organizations around client need and program outcomes. Similarly, the push to restructure the operations of nonprofit and voluntary groups to emulate successful private sector businesses through funding and reporting requirements and the elimination of core funding – to name two examples – has again been undertaken to improve programming. Yet, as nonprofit and voluntary groups surveyed for this study report, current funding trends in many instances are working to undermine the stated intent of funders, as well as the goals of nonprofit and voluntary groups themselves.

The value and contribution of nonprofit and voluntary services and programs for beneficiaries and communities is well established. Nonprofit and voluntary organizations are known to provide high quality goods and services, and employ a skilled and highly motivated workforce. They tend to be more flexible and responsive to clients and beneficiaries, with closer ties to the community, than private sector and state service providers. They are considered to be more trustworthy than for-profit providers as there are fewer incentives for abuse in the nonprofit service system (ISUMA, 2001: 7). As well, they are active in building social capital within local communities, providing a venue and voice to diverse interests critical to the functioning of healthy democratic societies. The contradictory impulses embedded in funding reform are now threatening the valuable qualities that distinguish the nonprofit and voluntary sector from its government and market counterparts.

Predictably, the current funding environment is affecting the programs and beneficiaries of nonprofit and voluntary organizations in diverse ways, some of which we examined above in our discussion of financial capacity. The impacts range from shifting programming priorities to meet ever-changing criteria for funding to the increasing amounts of time spent in meeting the monitoring, reporting and evaluation requirements. Overall, 82.0% of those surveyed stated that changes in revenue sources and arrangements had had a significant impact on their programs and services (N=50). Concern was raised in a number of areas. We discuss four below: the extension of greater control over the structure and content of programs; the impact of commercialization; the impact of limited funds for core activities; and the impact on innovation and evaluation.

Concerns about programming were paramount among respondents. Seven out of ten organizations (70.8%) surveyed indicated that their clients or beneficiaries had been impacted by changes in revenue sources and funding arrangements (N=48). Over three-quarters (77.1%) noted that due to changes in funding practices, they had experienced restrictions in their ability to meet community needs (N=48). In particular, participants noted frustration related to reduction in service, the introduction of user fees, increased targeting, and so forth. These changes were in some instances related to cutbacks for specific programs. But they were primarily related to the loss of stable, core funding as well as the instability characteristic of the project funding model more generally. The short time frames associated with project funding, for example, tend to be very disruptive. "At the end of the year, programs are put on hold or reduced until further funding is found" (#34). Clients or beneficiaries that come to rely on the supports or programs of an organization are often left hanging, caught up in contract renegotiations. One participant from Québec put it this way: "Instabilité quant à certains programmes offerts en créant des besoins face à la clientèle, que nous ne pouvons maintenir" (#30).

A stable funding base is key to successful programs and satisfied beneficiaries: "The reliability of funding is very important if not the most important. Once you begin to offer a service and one that is needed especially for your community, then you need to have the means to deliver that service. By knowing the funds are sustainable and knowing that the clientele has been served properly, the end result is professional people in your organization being accountable for this work and a satisfied and contented clientele" (#43). As a result of funding instability: "The clients that we serve, because there are no other organizations providing the services we provide, have been cut loose to fend for themselves. … The clients feel they have been used by the organization and blame the organization for promising a lot and now there is nothing. Staff were laid off because, although we tried with the support of many organizations, the government agency would not change its mind on the question of funding" (#43).

The changing funding regime has had a significant impact on the structure and content of programs and services. Many examples were raised in our focus groups about the impact of funding on programming through the extension of greater control over content. Funders are exerting greater control over programs and services both through the targeting of funding – in effect, privileging large service organizations over and above types of organizations, a point we discuss in greater detail below – and the increase in the terms and conditions on the receipt and expenditure of funds. The "conditionality" of funding shapes in a very concrete way how staff members on the front lines organize their work. Just as managers juggle project budgets and cash flow, staff struggle to deliver programs within the confines set out by new funding conditions and reporting requirements. Attention can and is diverted away from quality programming and the needs of beneficiaries.

Social service organizations spoke about the pressures to see more clients within existing resources, and the high levels of client frustration resulting from these changes. In home care, for instance, where for-profit competition is well established in some provinces, workers have been ordered to spend shorter periods of time with each person, and to limit the types of assistance offered, specifications laid out in detail in funding contracts. Front-line staff in all of the social service organizations we spoke to were critical about being forced to reduce caring to measurable units. One social service organization said: "The majority of the services and programs offered are now subject to government criteria. Clients who do not meet established criteria do not receive service. We can only just meet the demands of those screened in clients with our current staffing" (#44). A participant from Quebec made the same point: "On a dû mettre des limites d'utilisation de notre garderie, refuser des services à un type de clientèle qui n'est pas financées par ce projet" (#15).While some noted that such a system may well be more "efficient", the impact on staff and clients has been negative in many instances. Moreover, the savings in time and resources is in fact a false economy, as front-line staff report spending more time in crisis management with clients. Rhetoric to the contrary, this is a system driven by the needs of the funder to control and account for public dollars, not by the requirements of those in need of care.

The exigencies of funding have dovetailed with the broader trend toward commercialization evident in the nonprofit and voluntary sector, seen in the organization of social services noted above. The reorientation of programs and services around the private market is evident in other sectors as well. In the arts community, for example, there is an ongoing debate about the role and function of artists within market economies. One of the ways that this complex discussion is played out in the nonprofit and voluntary sector is in funding dilemmas over program content. What balance should a theatre company or art gallery strike between popular fare (i.e., Gilbert and Sullivan or a Monet exhibition) and support for new or more "challenging" artistic productions? More to the point, what balance does a funder strike between these two programs? In sport, similar questions are asked about the new support for elite athletes in a context of scarce public resources? In the zero-sum game of public funding, is the drive for marketable athletes being pursued at the expense of stronger community sport programs? We ask these questions to illustrate how new "private sector" thinking is influencing the development of these two important areas of the nonprofit and voluntary sector.

Restrictions on eligible program expenditures also create pressures within nonprofit and voluntary organizations as well. This is not "simply" applying for project funds and being turned down. When groups are not able to generate the funds necessary to offset essential non-program costs, or alternately, cannot raise the funds necessary under matching contribution arrangements, organizations are left with the option of cutting back or cutting out service all together. As one participant said: "Because of funding cuts, we have had to close our summer camp program and youth and media program, and youth conflict prevention. We are hitting the wall on several project funding sources as well. We cannot get program funding increases to match increased demand or to enhance service" (#26).

The impact of not covering "core" or non-program administrative costs through the project funding model was a dominant focus in all of our interviews and discussions. Nonprofit and voluntary organizations in this situation are forced to streamline service, to "cherry pick" clientele, to cut corners when possible in order to keep program costs to an absolute minimum. Organizations are placed in the situation of having to assess whether they can afford to carry out particular projects, under the terms and conditions specified, regardless of the quality or potential value of the project. "We have been forced to re-think how we do our business. The services we offer have to first of all be connected to our mission and secondly, be able to generate revenue to offset operating the program / service" (#6). When nonprofit and voluntary organizations cannot generate the revenues necessary, programs and clients are abandoned. "C'est donc de plus en plus difficile d'accomplir notre mission sans trop de contrainte, on nous oriente sans arrêt et on devient moins efficace a agir sur ce qui préoccupe nos membres" (#6).

Charging or increasing fees is another strategy for coping with the financial shortfalls occasioned by the loss of core funding. Study participants were very conscious of the impact of higher user fees on beneficiaries. The director of a museum reported: "There have been fees implemented in all areas of the museum – school program fees, public program fees, research service fees, exhibition fees. This then impacts the user, as before 1999 no fees were charged (#6). "Cost recovery is part of everything we do now" said another participant (#45). Many organizations argued that they had little choice but to raise fees for their services and products as other sources of income were unpredictable and beyond their immediate control.

One of the stated objectives of the new funding regime is to encourage innovation. Yet, there is very little room for risk-taking and innovation in programming given the incentives and disincentives built into results-based management systems intent on monitoring and verifying program activity. From the perspective of nonprofit and voluntary organizations, the main concern with the stated intent of funding initiatives was the constant demands of having to repackage their activity as "new and improved." This prerequisite is very time-consuming and exacerbates the uncertainty inherent in the project funding model. There was a real sense among participants that funders did not appreciate the work that groups are doing, nor did they recognize the success of many existing programs in meeting the needs of clients.

Further on this point, focus group participants spoke about the lack of support for internal evaluation. Yet, in the absence of core funding or designated funding for evaluation – as well as access to the necessary expertise – most groups did not carry out this type of analysis. Other commentators have spoken about fear of evaluation in the nonprofit and voluntary sector (Smillie, 1999). Fear or no, the bottom line was that few organizations were in the position to consider these types of activities, activities that many readily admit could improve and/or enhance program delivery and the overall efficacy of the organization.

**The Shape of Change**

| **Traditional** | **New Wave** |
|---|---|
| Enterprise co-operates with others | Entrepreneurial / competitive |
| Broad knowledge of organization's work | Specialized |
| Generous with time | Pressed for time |
| Housewives, retired, human service professionals, small business | Large corporations, decision-makers |
| Mission-oriented | Results-oriented, bored with philosophy |
| Concerned with quality of performance | Concerned with efficiency, effectiveness and tools to measure them |
| Contracts with government and limited fundraising | Wary of government restrictions, so board fundraising and capital campaigns |
| Fearful of market place | Contracts with business, etc. |
| Good employers | Hire on contracts |
| Resist merger | Merge and seek to merge |
| New programs ancillary | No program core |
| Decries competition | Relishes competition |
| Single entity | Joint ventures |
| Social work training | Interdisciplinary |
| Altruistic | Business |
| Do good | Do well |
| Mission determines product | Market determines product |
| Not-for-profit and deficit finance | Some programs income centres for agency |
| Serves poor through government grants and voluntary work | Serves through third-party payments, uses surplus for poor |
| Source: Based on presentation by Geneva Johnson, President and Chief Executive Officer, Family Services America (quoted in Taylor, 1991: 47). | |

M. Taylor. *New Times, New Challenges: Voluntary Organizations facing 1990*. London: National Council for Voluntary Organizations, 1991. Cited in Diana Leat, "Funding Matters" p. 185.

## Accountability to funders is detracting from accountability to other stakeholders, including members, beneficiaries and the broader community.

Current funding trends and practices have also prompted a shift or transformation in governance structures and accountability mechanisms, according to many of the groups surveyed. As funders have extended greater control through funding vehicles and monitoring systems, nonprofit and voluntary groups have been forced to concentrate increased time and energy in sustaining their relationship with funders, often at the expense of their connection to organizational members, clients and other stakeholders. One of the clearest expressions of increased prominence of funders is the shift in the composition and role of boards of directors. Generally speaking, groups across the nonprofit and voluntary sector note that there is a global trend away from more traditional models of governance, based on the representation of community and client interests, to a more professional or "blue chip" model where potential board members are chosen for their connections to potential funders. And while there is agreement about the trend and the elevated focus on funders in emerging accountability structures, there is no agreement about the desirability of these changes.

Among nonprofit and voluntary organizations surveyed for this study, many in the arts and culture sector as well as in recreation and sport expressed greater acceptance of the need to recruit "blue chip" boards than those in social services or organizations serving ethnocultural communities, for example. Those in the first group saw the shift to "blue chip" boards that concentrated on fundraising as necessary within today's funding environment, and indeed important to efforts to streamline decision-making processes. A participant from the environmental focus group summed up this position, saying: "Ideally your board members would be people who have the personal networks and the personal contacts who can steer you in the right direction to where the funding is" (FG: E). Respondents from the latter group were concerned about the impact of such a shift on ensuring representation of diverse communities of interest and the legitimacy of community-based nonprofit and voluntary organizations. They argued that broad representation on boards is important precisely because it strengthens decision-making in financially turbulent times and helps to validate actions taken to respond to new challenges.

The debate about the role of boards and accountability is ongoing. Yet, there wasn't a great deal of evidence among the groups surveyed that they had moved to any significant degree away from member- or community-based governance structures. Certainly, the idea of attracting well-connected board members was enticing for many, but in reality, most nonprofit and voluntary groups reported difficulty in recruiting board members at all. There were exceptions. Some organizations did have corporate members on their boards. Others were actively pursuing corporate and professional board members in efforts to diversify and increase their funding. Yet at this point, most organizations in our sample remain community-based, drawing on long-time members to staff board positions. Moreover, it would appear that few boards outside of the health sector – or smaller organizations – are actually involved in securing contracts or other income opportunities. These tasks continue to fall to paid staff and to management in particular.

It is true to say, however, that the role of boards is changing in response to the emerging funding regime. The very complexity and diversity of funding sources and arrangements tend to afford greater authority to the executive vis-á-vis community boards. In one study of eight national nonprofit organizations, Juillet and his colleagues did not find an explicit shift in favour of managers. They did find, however, that organizations were engaged in efforts to clarify the roles and responsibilities of staff, managers, and board members. As a result of these reforms – intended or otherwise – the autonomy of managers had increased. At the same time, boards have attempted to strengthen accountability by concentrating on broad policy, overseeing financial practices and assessing the performance of the organization. These trends were not tied to reliance on a particular funder, but were tied – in the opinion of the authors – to the complexity of "multiple sources of funding, the gain and management of multiple projects, and associated requirements for greater entrepreneurship and expedient actions" (Juillet et al., 2001: 53).

The connection between the emerging funding regime and structures of governance and accountability to members and community are not straightforward. Many groups participating in our study did downsize the size of their boards, thus reducing the representational character of the elected organizational overseers. However, in most instances, these actions were taken to trim costs, not to elevate professionals or to become more "efficient". Nonprofit and voluntary sector groups surveyed were very conscious of the inherent dangers of weakening board structures as they position the organization in an increasingly competitive environment. "When funding sources drive the mission of the organization it means the community often loses out" (FG: CS-Q). Similarly, they were aware of the problems that can arise as authority and expertise are concentrated in the hands of management in the push to capitalize on funding opportunities. "Democratic structures of control and accountability [can] come to be seen as irrelevant, if not counter-productive and expensive luxuries" (Leat, 1995: 184).

Many focus group participants acknowledged that they often walk a tightrope between the course that is desirable and the one that is pragmatic in the pursuit of funding. They were all concerned, however, about the global trend towards undue emphasis upon accountability to funders. "There are contradictions between the accountability to your funder and the great deal of energy it takes that detracts from accountability to your beneficiaries" (FG: CS-N). The time and energy spent reporting to funders has increased markedly, as reported above. This trend is having an impact on the ability to nonprofit and voluntary organizations to stay connected with the people they serve and their broader communities. Over half of the organizations surveyed (57.8%) reported that they were experiencing greater difficulties in remaining connected to their communities and constituencies under the new funding regime (N=45). None of the organizations that participated in the study stated that accountability was not important for their organizations and the nonprofit and voluntary sector in general. Indeed, the new emphasis on outcomes as it related to demonstrating the impact and value of nonprofit and voluntary groups was seen as very important. However, the disproportionate focus on the accountability requirements of funders, certainly as it is structured through current funding arrangements and practices, threatens to consume the energies and sustainability of many organizations, particularly smaller groups that do not have the structure or capacity to deal with complex and often contradictory reporting requirements from multiple funders. Pressures to continually account to funders similarly threaten to cut nonprofit and voluntary organizations off from their base of support and legitimacy.

### Advocacy and advocacy organizations have been marginalized under the new funding regime.

Nonprofit and voluntary organizations play many roles in Canadian society. Much of this study has focused on their roles as service providers, but they play equally important roles in representing the interests, identities and concerns of their communities, and in providing venues and opportunities for Canadians to participate in their communities in the interest of the public good. The new funding regime is having the effect of discouraging – if not outright silencing – the rich diversity of voices and views of nonprofit and voluntary organizations on many issues that matter to Canadians. Advocacy has become so sensitive that many organizations, rather than tip-toeing around the sensitivities of funders, have just stopped speaking out.

We note in Chapter 2 that the nonprofit and voluntary sector has a longstanding relationship with the Canadian state. Different governments, at different times, have actively encouraged the creation of organizations committed to the arts and to health and also to advocacy on behalf of disadvantaged communities, including women, Aboriginal peoples, persons with disabilities, ethnocultural and ethnoracial communities, official language minorities and low-income Canadians.

Through the 1960s and 1970s in particular, a rights-based movement around identity and equality gained a political voice through the creation of national, provincial and local advocacy organizations. Governments provided key financial support for these groups, including core funding, that enabled groups to pursue broad change agendas. This financial support was critical not only for the creation and maintenance of these groups, but in the legitimacy that such support conferred. State support confirmed that: "achieving justice and equity were legitimate goals, and therefore groups which made claims, and programs which responded to such claims, were in the political mainstream" (Jenson and Phillips, 1996: 118-19).

The 1990s marked a decisive shift in the level of support for nonprofit and voluntary organizations, the result of a confluence of political and economic forces. First, nonprofit and voluntary groups were profoundly affected by government moves to reduce and redefine the scope of public service, and to cut back public expenditures in efforts to promote "greater reliance on funding from other sources" (Cardozo, 1997: 315). In particular, advocacy organizations were directly targeted for funding cuts in a process described by Leslie Pal as "disengagement" (Pal, 1997). At the same time, selected journalists and public figures raised concerns about what they referred to as the "Greed, Waste and Fraud in Canada's $86 Billion-a-Year Compassion Industry". Walter Stewart's 1996 book, *The Charity Game* (pulled from circulation under threat of legal action) and John Bryden's report to Parliament the same year alleged that nonprofit and voluntary organizations, charities in particular, were simply self-serving special interest groups lacking accountability and legitimate purpose (Bryden, 1996). He argued that groups which are effectively on the "tax payers' payroll" should leave political debate to the politicians (Picard, March 25, 2002: A1). It was no surprise in the face of hardening political attitudes that the federal Department of Finance proceeded with a review of nonprofit and voluntary sector grants under Program Review in 1994-95, cutting funds by a total of $300 million.

Funders did not turn their backs on the nonprofit and voluntary sector completely. Following the turmoil of the mid-1990s, as the economy returned to health, governments sought to craft new relationships with the nonprofit and voluntary sector. Specifically, governments "re-engaged" with selected nonprofit and voluntary organizations, in particular service-oriented community groups. This process marked a decisive shift in government-sector relations, winding down support – monetary and otherwise – for advocacy organizations. Organizations such as the Canadian Advisory Council on the Status of Women, for example, were closed, their budget turned over to Status of Women Canada in the name of economy and efficiency. Across other sectors, governments withdrew support for intermediary bodies and ended the system of core grants for many national organizations, including the Canadian Council on Social Development. Only through intense lobbying were national anti-poverty and disability organizations spared, but they received reduced levels of funding. A similar process took place in many provinces. As a result, advocacy in Canada has been scaled back to a significant degree.

The impact has been felt across the entire nonprofit and voluntary sector, as funders have sought to fashion new "partnerships" with nonprofit and voluntary groups through new contractual funding arrangements and other market reforms, privileging "neutral" service providers over "special interest groups." The divide between winners and losers in the nonprofit and voluntary sector has never been so clear. These trends are challenging the autonomy of the sector in a number of ways. The most immediate impact has been on the demise and weakening of existing advocacy organizations. There are no longer assured sources of public support for these organizations critical to the healthy functioning of Canadian democracy. Moreover, other nonprofit and voluntary organizations are now much more circumspect in their advocacy and public education work. Focus group participants spoke about being "more aware" of the potential ramifications of their advocacy-related activities. As a result, groups are being "more strategic" and "more selective in issues that [they] will actually advocate for or against" (#38).

The situation of charities is particularly tenuous as charities are prohibited from spending more than 10% of revenues on "political activity". Thus, charities are forced to carefully monitor activities and expenditures. Organizations such as the Institute for Media, Policy and Civil Society have been very vocal about the negative impact of Canada's "archaic tax laws" on charitable organizations (IMPACS, 2002). Organizations are allowed to distribute aid to poor children and families, but cannot advocate for improved policy and programs to address the causes of poverty. These constraints certainly do not apply to private interests who are able to access large financial resources to advance their issues, and then claim these expenditures as tax deductions. The promotion of corporate interests by registered lobbyists is seen as legitimate, whereas efforts by charities on behalf of their constituencies is construed as an abuse of their privileged tax status.

Overall, many nonprofit and voluntary organizations have stopped advocating, constrained by lack of volunteers and core funding, as well as fears of being marginalized in the competition for funds from governments, donors, foundations and the like. One participant said: "due to unclear rules and fear of losing funding opportunities, we do not advocate. The risk is much too great" (#32). Others craft their messages very carefully: "when you receive government funding, you cannot lobby for fear of jeopardizing your funding. You may see changes that could be made but always have to present them in a very careful, positive way and you must always give the government credit" (#37). Another said: "You are always aware if you have a funding proposal sitting on the minister's desk. You don't want to have your name in the paper that day" (#50). Groups from the ethnocultural community, both those with and without charitable status, were clearly fearful of speaking out; some referred to explicit threats that had been made by funders to cut their funding.[11] Many organizations also expressed concerns about losing their charitable status, a key asset in their efforts to generate income. As these examples illustrate, a climate of advocacy chill has set in, threatening not only the organizational autonomy of nonprofit and voluntary organizations, but their capacity to pursue their goals: "We can't fulfill our mission due to barriers to funding advocacy work" (FG: CS-NB). The impact of the new funding regime on the character and quality of democracy is cause for deep concern.

## 5.3 Nonprofit and Voluntary Organizations Responding to Change

> It is important to acknowledge that all revenue strategies have advantages and disadvantages: the ideal scenario with continuous flows of funds for unencumbered mission pursuit is not and never has been a reality for nonprofit organizations. Rather, a variety of funding sources exist, each associated with particular constraints and different management tasks. A key to organizational viability and integrity is to understand the opportunities and tradeoffs choose revenue strategies that are consistent with the mission, and conscientiously respond to management challenges presented by each strategy (Froelich, 1999: 261).

Within the realities of the emerging funding regime, nonprofit and voluntary organizations are exploring alternative strategies to bolster their capacity to meet mission. It is a difficult task – one that requires groups to balance the demands of financial security and the need to preserve organizational autonomy. Predictably, resource strategies vary widely, reflecting the diversity of the individual nonprofit and voluntary organizations and the social, political and funding contexts within which each organization operates. For example, some groups continue to seek out government project funds, while others are attempting to launch commercial ventures. Others are attempting to extend the reach of their fundraising through direct mail campaigns or planned giving. On the expenditure side, we see creative responses throughout the sector as groups forge alliances to reduce administrative costs or share infrastructure. More often, groups attempt to achieve "staffing" efficiencies, amalgamating job functions or arranging for staff to work out of their homes. Nonprofit and voluntary organizations are also reconsidering programming and governance structures all in an effort to "modernize" – to get ahead of funding trends.

The diversity of responses is key to understanding the impact of the new funding regime, how, on the one hand, increased competition for resources for example is affecting the activities and contribution of the nonprofit and voluntary sector, and on the other hand, how the responses of nonprofit and voluntary organizations themselves are affecting their own efforts to realize mission. It is not simply that new funding trends and practices are having a direct impact on nonprofit and voluntary organizations. They are. But as the funding regime has changed, nonprofit and voluntary organizations are moving to adapt their organizations and resource strategies. The impact of the emerging funding regime must be understood in this broader context, where nonprofit and voluntary organizations are actors in their own right. While the range of strategic choices is increasingly narrow and the relationship between funder and funded grossly unequal, nonprofit and voluntary organizations continue to set their own course. Succinctly stated, we have to take the actions of nonprofit and voluntary groups into account in order to understand the impact of changing funding sources and mechanisms on the capacity of nonprofit and voluntary organizations to meet mission.

Below we look at how nonprofit and voluntary organizations are responding to the changing funding environment, specifically, the alternative income generation strategies that they are pursuing and their efforts to reorganize and reduce costs. We see a range of responses on the part of these same organizations, reflecting the differential capacity of organizations to sustain their activities and to capitalize on new opportunities.

### Nonprofit and voluntary are actively pursuing a range of alternative income sources.

As the pressures related to funding have grown, as reported by our study participants, so too has their efforts to diversify their funding bases. For some organizations, dependence on a single stable source of income would be preferable. But the reality for most is that it has been increasingly necessary to seek out alternative sources of funding, that is to increase the number and type of funding sources. This is not simply a case of taking on more project work, although that is the reality for many; rather groups are explicit about their efforts to seek out different types of funding, from different sources, to create a more sustainable financial base and to dilute the financial and organizational risks associated with heavy dependence on one or two funders.

As we reported earlier, an overwhelming majority of organizations surveyed (93.3%) have sought to diversify their funding sources over the past five years (N=44). Different events triggered the search for funds, including:

- reduction in funding (i.e., from governments, corporate donations, gaming);
- increased demand for service;
- persistent financial problems;
- uncertainty and vulnerability related to high dependence on a single source of funding;
- need for new building or working capital (i.e., technology); and
- pressure from funders to diversity.

Many groups noted that they are pursuing new funding sources because of the project grind itself. The lack of administrative or core funding, and the restriction of the use of project monies, create conditions of chronic underfunding within the organization. The very structure or logic of the project funding model forces nonprofit and voluntary groups to raise additional funds or reallocate existing monies in order to support new project work.

The push to diversify their funding base, then, is an effort on the part of nonprofit and voluntary organizations to enhance their autonomy and financial security. And many groups have succeeded. Two-thirds (65.9%) of organizations report that they have a larger number of income sources today than they did five years ago (N=44). Community benefit groups were the most likely to state they have more sources of funding (88.9%) followed by social services (72.7%). In contrast, only 40.0% of health groups and 44.4% of recreation, sport, arts and cultural groups responded that they had more sources of income than five years ago. These findings echo those reported in Chapter 4.[12]

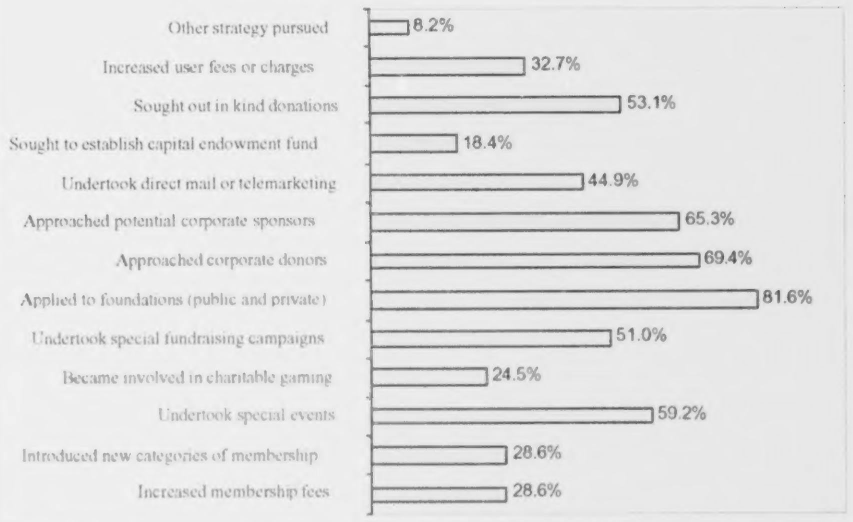
Of the various alternative funding opportunities available, respondents indicated that government was still an important – if not the central – source of financial support. Seven out of ten nonprofit and voluntary groups (71.4%) identified government as an important source of alternative funding (N=49). Of this group, all had approached provincial governments, seven out of ten (71.4%) had approached the federal government, and roughly half (54.3%) had approached regional or municipal governments for funds. Given the significance of government as a funder of the nonprofit and voluntary sector in Canada, this finding is not surprising. An analysis of the financial information of our survey participants reveals the increase in aggregate income experienced by this group of nonprofit and voluntary organizations between 1997 and 2002 was driven by increases in government project funding, even as access to grant income fell. Despite the high costs related to government funding including the potential loss of control over policy, programs and procedures, it is still the only source of funding for many types of nonprofit and voluntary activity according to many study participants. The promise of financial stability is also important in the continuing allure of government funding for nonprofit and voluntary organizations. "You do get paid eventually" (#50) as one focus group participant said. Stated another way, "better the devil you know, than the devil you don't" (#10).

Nonprofit and voluntary organizations also pursued non-governmental sources of support, with varying degrees of success. Respondents identified foundations – both public and private – as the most common potential source over the last five years period: 81.6% of nonprofit and voluntary groups surveyed had submitted applications for funding, some of which were successful as witnessed by the increase in funding from public and private foundations discussed in Chapter 4. One-third of organizations (32.7%) raised user fees for products or services, a point that we return to below. Just under half (44.9%) attempted to increase the number of members and another 28.6% increased their membership fees. In a new trend, 28.6% of the nonprofit and voluntary groups surveyed introduced new categories of membership in order to expand their base of support.[13]

Two-thirds of participating organizations had approached corporations either for donations (69.4%) or for sponsorships (65.4%) – again with some success. With regard to approaching corporate funders, many organizations noted the increasing difficulty they were experiencing soliciting donations as many larger businesses are increasingly targeting philanthropic dollars to select causes, often through new corporate foundations. In addition, as the economy has restructured and head offices have moved elsewhere, Canadian branches do not have the same pool of charitable dollars at their disposal. More than one group lamented the time and energy that had been spent developing relationships with specific managers and CEOs, only to see these people transferred or leave the companies after restructuring or mergers. The general feeling was that multinational companies do not have to same interest or commitment to investing in Canadian communities.

Under fundraising, over half of the groups (59.2%) undertook special events, and just half (51.0%) mounted special fundraising campaigns targeted to individual donors. Just less than half of the groups (44.9%) surveyed approached individual donors through direct mail or telemarketing. One quarter of the organizations surveyed (24.5%) sponsored charitable gaming events for fundraising purposes. One in five (18.4%) organizations attempted to establish an endowment fund. The stakes are high. More than one key informant to the study said that the future of the sector lay in increasing individual donations, tapping into the expected transfer of trillions of dollars between generations coming over the next two decades. Yet how to do so? Focus group participants stated that the costs of pursuing fundraising have increased enormously – both in terms of the human resources and financial resources required (see section 5.1). As well, there is a real sense of donor fatigue as requests have proliferated. One participant stated that "local businesses are really getting hit upon. Individuals are also getting more requests" (#47). In this climate, it makes it even more difficult to fundraise and to sustain fundraising efforts year after year. Some groups have turned to external fundraisers in an effort to generate income (24.5%); others – principally larger organizations such as hospitals and universities – have dedicated staff resources to the task. There are also questions about how to raise funds (i.e., charitable casinos) and where to go for funds (i.e., tobacco companies). Simply stated, fundraising is an increasingly complex undertaking. As a result of these pressures, many now notice a divide opening up in the nonprofit and voluntary sector between those groups that have the ability to mount extensive campaigns for donations and those that by necessity rely on the sporadic involvement of volunteers to solicit donations.

**Chart 5.1 : Nonprofit and Voluntary Organizations Pursuing Alternative Sources, 2002**

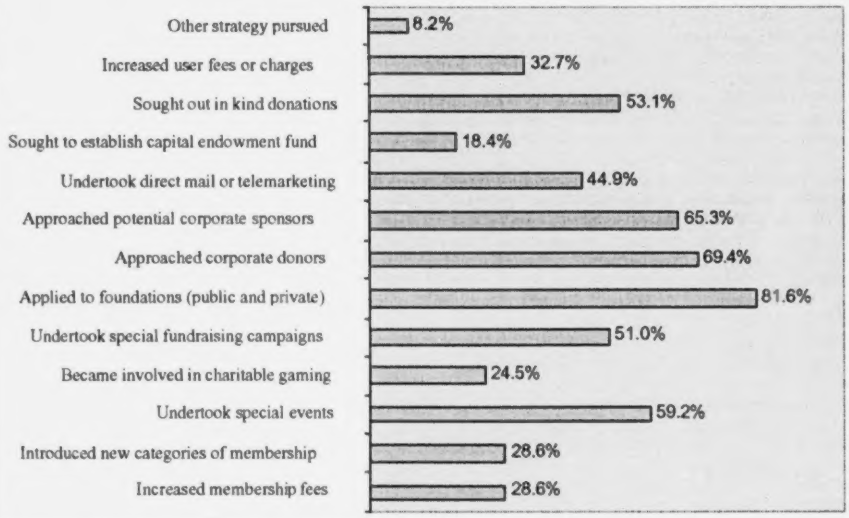


Source: CCSD Funding Study (N=49)

Certainly, nonprofit and voluntary organizations that have a charitable number have a considerable advantage over those who do not. The issue of charitable status has been a considerable point of contention for many in the sector who have been unable to secure a charitable number under existing tax regulations. The Canadian definition of a charity and charitable activity is based on the original definition set out in the Elizabethan Poor Laws. The leading definition of charitable uses or purposes in Anglo-Canadian law is the case *Commissioners for Special Purposes of the Income Tax v. Pemsel*, [1891] AC 531 at 583 (HL). In that case Lord MacNaghten said: "'Charity' in its legal sense comprises four principal divisions: trusts for the relief of poverty; trusts for the advancement of education; trusts for the advancement of religion; and trusts for other purposes beneficial to the community, not falling under any of the preceding heads." As such, many types of public interest activity are not captured in the Canada Customs and Revenue Agency (CCRA) regulations.

Organizations serving ethnocultural and ethnoracial communities are a case in point. Many groups have made applications for charitable status and been turned down because their causes – promoting multiculturalism, for example – have not been recognized in the regulations nor by a court of law. Indeed, the opinion of successive courts has been that the activity of ethnocultural organizations is inherently political and thus not eligible under the definition of charity set out in CCRA regulations. Efforts to apply under the heading of "advancement of education" have similarly failed as courts have narrowly interpreted this category to mean groups directly engaged in formal educational activities such as schools. The CCRA has gone further to query whether ethnocultural organizations are operating for the benefit of the public at large and not just in the individual interests of their members.[14]

**Chart 5.1 : Nonprofit and Voluntary Organizations Pursuing Alternative Sources, 2002**



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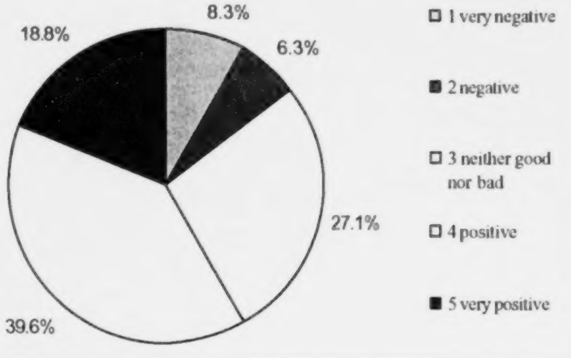
The debate over the definition of a charity is an important one in relation to the ability of nonprofit and voluntary organizations to diversify their sources of revenue and fund raise more generally. Discussions have been ongoing for many years between representatives from the sector and the federal government. Other countries have certainly moved to update their tax laws. To date, no progress has been made in Canada. In fact, many of the groups that we spoke to claimed that it was now more difficult to secure charitable status than it has been in the past.

The pursuit of in-kind donations was also important as an alternative source of financial support for over half of the groups surveyed (53.1%). The whole topic of in-kind donations deserves more attention. Nonprofit and voluntary groups rely to a very large extent on the services of volunteers to govern and operate their organizations. They seek out professionals, for instance, to donate their services in fields like accounting or social marketing. They attempt to secure discounts from suppliers for goods and services, fee reductions or waivers on the use or rental of facilities – typically from public institutions, and access to specialized training for staff or volunteers. For charities, the task of soliciting in-kind contributions is made easier by virtue of the fact that they can issue charitable receipts to donors. (In this instance, a charitable group pays for a service or good; the individual or business then hands over a donation for all or part of the value.) Taken together, in-kind donations constitute a critical part of the funding or resource mix, one that is largely invisible because of the difficulties involved in attributing a dollar value to donated goods and services. To this extent, one can argue that *more* than half of the groups surveyed are probably engaged in soliciting in-kind donations.

And lastly, six out of ten groups (59.2%) stated that they were pursuing commercial or business activities to diversify their resource base. This finding is interesting in light of recent research documenting the relatively limited scope of commercial activities in the nonprofit and voluntary sector in Canada (Zimmerman and Dart, 1998). Our own survey found that 37.5% of organizations surveyed were already engaged in commercial activities in 2001, representing 11.9% per cent of total incomes of the groups surveyed – the largest source of income under earned income.[15]

The arts and culture and the sport and recreation groups had the most experience with commercial activities among participating organizations. A number of social service organizations had commercial operations as well. By and large, they were very positive about these operations, noting the benefits of market discipline and directly dealing with, and responding to, program consumers. Overall, a majority of organizations surveyed for this study (54.8%) stated that becoming more "business-like" was a "positive" or "very positive" development for the sector (N=49).

**Chart 5.2**
**Nonprofit and Voluntary Organizations**
**Views of commercialization, 2002**



Source: CCSD Funding Study (N=48)

Given the number of organizations that were surveyed, it is not surprising that there was a range of opinion about the impact of earned income and the forces of commercialization more generally. Recreation and sport groups, for example, were more likely to see the increase in competitive pressures more positively, as opposed to the majority of social service and community benefit groups participating in the study.[16] These differences clearly reflect the different histories and the different funding mixes of each subsector. To develop this point further, many recreational groups noted that there had always been competition with nonprofit, public and private sector service providers. As the competition in the recreational marketplace has increased and public support in the form of government grants and contributions has been cut back, many recreation groups argued that it was incumbent upon the organizations to become more innovative and responsive to consumer needs. One group went as far as to say that the "elimination of core funding has meant greater creativity in new program development" (#1).

The same sentiment was expressed by a number – but certainly not all – arts and cultural groups. The manager of a small theatre was acutely aware of the need to position the organization in an increasingly competitive art and entertainment environment. Competition had forced them to strip down and focus on what they do best. A tight focus on the box office had been important, he believed, in moderating the overall growth of the theatre and its programs, thus helping the organization to avoid the pitfalls of expanding beyond the financial and organizational capacity of the theatre company.

At the same time, these participants talked candidly about the risks involved in investing in a new program or service where there was no guarantee of return and the very real possibility that failure would drain resources from other program areas or precipitate the collapse of the organization as a whole.[17] Generally, they noted the difficulties inherent in managing different income streams within one organization, not least of which were the need for considerable expertise and skill on the part of managers and board members, and more sophisticated administrative and financial systems. The complexities of these tasks were particularly acute when a single program or service relied on two or more distinctive funding sources. For example, focus group participants discussed the challenges involved in balancing market and "public benefit" objectives in setting ticket prices and registration fees. Organizations were very aware of the dangers in pricing their programs beyond the reach of the general public, especially those of limited means; at the same time, the impulse to increase fees was ever present given the unpredictability of other funding sources. Certainly, a number of the organizations surveyed did increase their fees (32.7%) in order to raise funds as reported above.

Generally, many organizations involved in earned opportunities, and commercial ventures in particular, said that the demands of pursuing and administering these activities resulted in a creative tension and focus on program outcomes that was positive for the organization. At the same time, some noted the ongoing stress related to the programs and projects, including a narrower program and client focus, increased demands on staff, reduced focus on community needs, and intensified competition with other nonprofit and for-profit service providers. Moreover, it was not always clear that earned income programs were more efficient or less expensive. To wit, an executive director of a national social service organization spoke about being locked into a money-losing sponsorship agreement, all in the effort to sustain corporate good will.

There was also a strict division of opinion about the need to become market savvy competitors in a lean and mean service marketplace. Many groups, especially those in social services and those serving ethnocultural communities, strongly objected to the idea that they should be singing for their supper when they were providing essential public supports and services. Similarly, arts groups expressed the opinion that public funding for the arts was critical in order to provide a platform or space for artists to pursue their creative visions, insulated at least in part from market pressures. For these groups, the call for nonprofit and voluntary organizations to become self-sufficient on the part of funders, notably governments, is an abrogation of the public good and the citizenship rights of Canadians. This sentiment was forcefully expressed by many service providers, but it was also expressed by groups involved in advocacy and public education. For them, the marginalization of advocacy activities and organizations represents an attack on democracy in Canada. Other nonprofit and voluntary organizations, specifically those in the recreation field, were more comfortable with a diminished public role in funding. Indeed, there was more of a sense of the natural life course of organizations, where groups spring up in response to community demand and die when that support fades. In this regard, recreational groups seemed to be closer to informal, "grass roots" groups.

All in all, of the diversification strategies identified, undertaking special fundraising events (20.0%) was considered the *most* successful strategy, followed by pursuing government funding (12.5%); applying to foundations; seeking out in-kind donations (12.5%); and mounting fundraising campaigns (12.5%) (N=40). Organizations surveyed also reported that pursuing additional government funding, especially from provincial governments (14.0%); approaching corporate donors (13.9%); applying to foundations (13.9%); and conducting membership drives (13.9%) were the *least* successful (N=36).

Respondents stated that the most common impediment to pursuing alternative sources of revenue was time, money, and energy. "Le temps, l'energie et les ressources humaines" (#28). Most community-based groups, such as the ones surveyed, were too small to have dedicated development and fundraising staffs of the type that hospitals and universities employ. Yet spending the time necessary developing a business plan and other marketing tools was seen as critical to efforts to rise above the funding fray. In an increasingly competitive environment dominated by project funding, groups lamented that they were often too busy – running as fast as they could to meet day to day obligations to spend the time necessary to develop long-term funding or organizational strategies. Organizations also stated that they had difficulty in fitting into funding priorities and criteria set out by funders. As a consequence, some stressed that it was necessary for nonprofit and voluntary organizations to be increasingly flexible in the range of activities they undertook; others were explicit about sticking to mission and had developed policy frameworks to screen funding opportunities. They were prepared to forego funding opportunities to retain the integrity of their focus and mission.

The range of responses reflects the complexity of pursuing alternative sources of income as well as the enormously diverse range of nonprofit and voluntary organizations operating in Canada. It is not surprising that, reviewing the case studies conducted for this study, one sought out government project funding to expand its activities,[18] while another decided to mount a capital campaign to finance the expansion of its theatre facilities in order to facilitate the expansion of its earned income activities (i.e., workshops, rental income). To expand and diversify resources, the national social service group chose to aggressively pursue corporate donations and sponsorships. The range and scale of activity is an important finding of this study.

### Organizations continue to pare expenses to the bone.

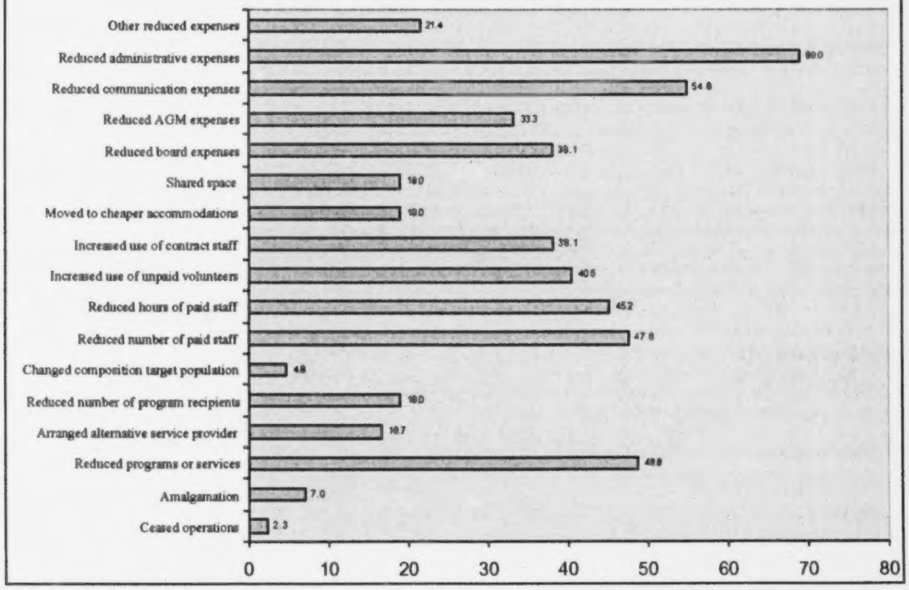
While nonprofit and voluntary organizations have been pursuing various strategies to diversify their resource base, they have also been looking inward, reexamining the ways in which they pursue their goals. The funding cuts of the early to mid 1990s precipitated a profound reorganization of the nonprofit and voluntary sector, especially for groups targeted in the downsizing. However, all organizations have undertaken to examine their activities, to streamline where possible, to refocus on mission. In many instances, this has taken place against a backdrop of increasing demand linked in no small part to government downloading and privatizations of services. Growing demand has been particularly acute among social services and health organizations who report increasing numbers of clients with increasingly complex problems. "Newer" nonprofit and voluntary organizations – such as associations serving ethnocultural communities – have similarly found it difficult to establish a funding base within an environment of resource scarcity.

These pressures have graphically come together on the balance sheet, as expenses have increased and pressures to reduce and streamline expenditures have intensified. Of organizations surveyed, 64.0% have experienced an increase in their level of organizational expenses over the last five years, while 28.0% have experienced no significant change (N=50). Environmental, ethnocultural, and social service groups report highest run up in costs: 85.7%, 80.0%, and 80.0% respectively.[19] At the same time, eight out of ten groups (81.6%) have sought to reduce expenditures (N=49). These efforts are not exclusively tied to increases in organizational costs. As noted in Chapter 3, the very structure of funding which prohibits or limits spending on key administrative and organizational functions, creates conditions of scarcity within the organization. Even organizations that experienced overall increases in revenues as many of the organizations surveyed did experience problems covering organizational expenses, compromising program delivery and the goals of nonprofit and voluntary organizations.

Nonprofit and voluntary groups have pursued a number of strategies to reduce expenditures, ranging from reducing administrative expenditures through the use of in-kind donations, cheaper office supplies, and going without (69.0%) to ceasing operations altogether (2.3%). Internal and external communications activities were commonly targeted in efforts to contain costs. Over half of organizations (54.8%) surveyed reduced expenses related to communications (i.e., newsletters). Organizations have been forced to cut back programs and services to reduce expenditures. Almost half (48.8%) reported that they had reduced programming, while 16.7% arranged with another organization to deliver some or all of their programs. One in six groups (19.0%) reduced the number of beneficiaries or clients; 4.8% deliberately undertook to change the composition of their clientele, reducing the number of hard-to-serve clients in order to minimize costs (N=42).

In approaching labour costs – the largest budget item for any nonprofit and voluntary group – 47.6% of organizations reduced the number of paid staff; 45.2% reduced the hours of paid staff (e.g., from full-time to part-time); 38.1% increased the use of contract staff; and 40.5% increased the use of unpaid volunteers. Governing mechanisms were also subject to review. Over one-third of groups (38.1%) reduced the expenses related to Board meetings, while another 33.3% reduced expenses related to Annual General Meetings. Organizations also looked at organizational infrastructure. In addition to cutting administrative expenses, a number of nonprofit and voluntary groups surveyed moved to cheaper accommodation (19.0%), arranged to share office space with another organization (19.0%), and in a few cases, formally amalgamated with another organization (7.0%) (N=42).

**Chart 5.3 : Nonprofit and Voluntary Organizations, Use of Cost Reduction Strategies, 2002**



Source: CCSD Funding Study (N=42)

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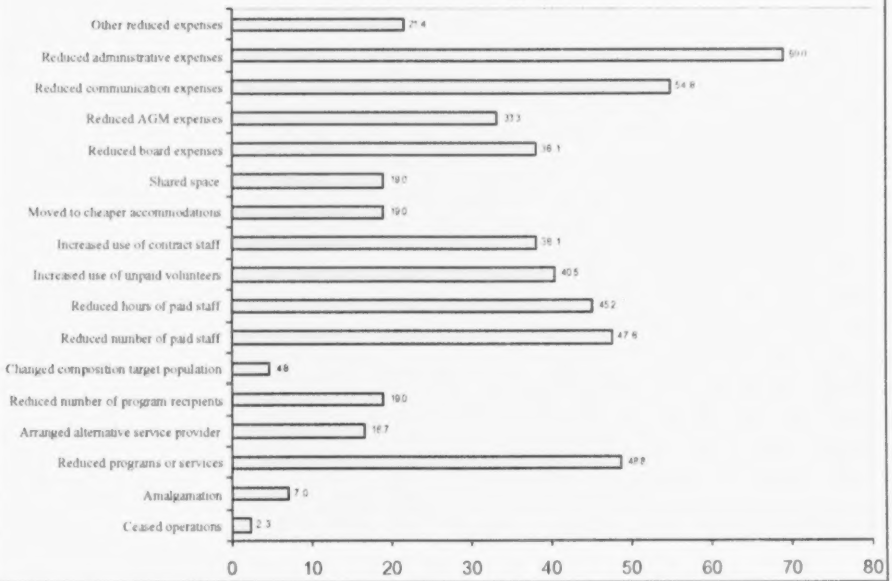

Source: CCSD Funding Study (N=42)

Other strategies for reducing expenses were noted such as implementing new accounting and donor-based software; arranging to buy bulk supplies with other organizations when possible; renting space out to other organizations; and cutting back on building maintenance. Some groups had their staff work from their homes in order to reduce or eliminate the need to maintain an office. Focus group participants also noted that it was common to defer expenditures for as along as possible. Similarly, many delayed bill payment for as long as possible in order to manage highly unpredictable cash flows. To this end, organizations also delayed hiring people or left positions unfilled for long periods of time, all in an effort to reduce and manage expenditures. (Please see section 6.1).

Overall, reducing the numbers and the hours of paid staff was identified as the *most* effective means of reducing expenditures: almost one-third of groups (30.6%) indicated that they had employed the strategies (N=36). One out of five (19.4%) indicated that they had had success in reducing costs by cutting administrative or overhead expenses such as rent where possible and buying in bulk with other organizations. One out of 10 (11.1%) had successfully lowered expenditures by reducing and/or arranging to coordinate program delivery with other organizations. As well, a number of groups (11.1%) mentioned that they were able to reduce costs through the introduction of technology, such as communicating with members via the internet.

Interestingly, reducing the number of paid staff, shifting to contract employment, and reducing hours of employment, together, were also identified as the *least* effective means of reducing costs by half of the organizations surveyed (50.0%) (N=36). Using volunteers in place of paid staff was not successful according to 14.3% of groups. Similarly, 14.3% indicated that reducing administrative expenditures was not an effective cost cutting strategy.

Overall, respondents noted that there were some positive benefits of having to review organizational operations in order to find cost savings. Some noted that the situation has generally forced organizations to devise "some new, more creative ways of doing things" (#16). Others said that it was good to keep a stricter eye on the bottom line. This sentiment is in keeping with the general sentiment expressed by the organizations surveyed that adopting a more "business-like" approach to management was a positive development for the nonprofit and voluntary sector. Another organization stated that the search for cost efficiencies has forced the organization to concentrate on building relationships in the community, and that this has been positive for the group.

However, the negative impacts were evident as well. Participants were very clear about the sheer futility and inefficiency of cutting staff, in effect, trying to do the same with less. Initial savings were invariably undermined by the costs associated with increasing stress and burnout among remaining staff, by the costs of using contract staff over long periods of time, and by the costs related to staff turnover generally. The quality of programming was inevitably affected by staffing change: "Contracted staff don't always stay or worse show no reason to put in the extra effort because it's close ended" (#20). Using volunteers in place of paid staff was not always practical or possible. At a fundamental level, the loss of staff seriously undermined the capacity of the organization to meet mission, as valuable experience and knowledge was inevitably lost through this process. As one group said: "By reducing staff, we lost the ability to administer effectively" (#3).

As well, nonprofit and voluntary organizations remain reluctant to cut costs related to programming. From the perspective of meeting mission, reducing the scale and scope of activity substantially undermines the capacity of groups to achieve their goals – particularly in the face of constant or increasing demand for services. One arts group told us: "By doing the co-productions, we lost our profile in the community" (#3). As a result of cutbacks, another said we "[f]eel restricted in programming and growth" (#11). "We cannot compete for as many projects, tasks that we wanted to" (#8). More generally, cutbacks have been demoralizing. Organizations are forced to "reduce … costs at the same time as they keep escalating" (#17). "You become so lean, everybody today is doing what six years ago was three jobs"(FG: RS).

As a result of the emerging funding regime, many organizations find themselves having to cut back service irrespective of demand because they cannot find the funding necessary or cannot operate within the strict parameters of those sources that are available. Among social service, community benefit organizations, and groups serving ethnocultural communities in particular, there was an acute sense of frustration and distress in not being able to serve their communities. Cost cutting has meant: "Increase in stress, poorer communication, lack of professional workspace, fear among staff of loss of work, poorer delivery, missed opportunities" (#5).

### Organizations are undertaking extensive change to compete in today's funding environment.

The process of change in any organization is ongoing. Above we have documented the range of ways that nonprofit and voluntary organizations are rethinking and reorganizing the mix of revenue sources and mechanisms as well as cutting back in various areas of the organization. Overall, the majority of organizations surveyed have made substantial changes to better position themselves in the emerging funding environment. The following chart summarizes these changes. Two-thirds of respondents have changed their services and programs, have changed or adopted new program evaluation and accountability reporting mechanisms and have also made changes in their organizational structure and processes – all in the name of pursuing new funding opportunities. Just over half have shifted and/or expanded their target clientele. Four out of ten have introduced changes in their hiring practices and modified their governing structures.

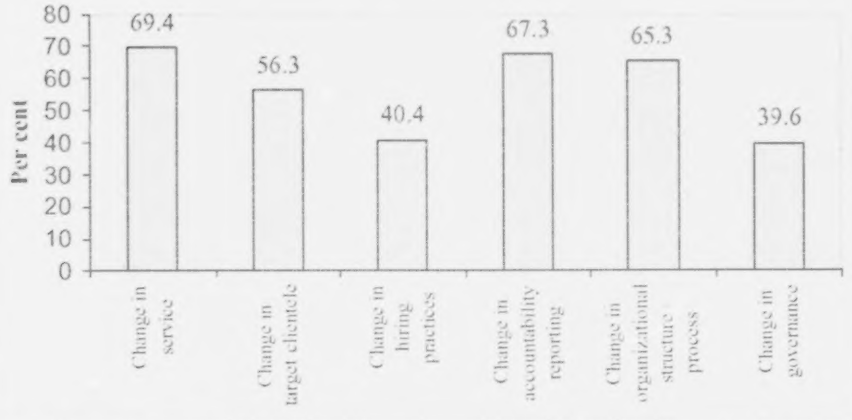

**Chart 5.4: Nonprofit and Voluntary Organizations: Percentage that have undertaken change in the pursuit of funding opportunities, 2002**

Source: CCSD Funding Study (N=48)

We have also summarized these findings in a single index. This index assesses the degree to which nonprofit and voluntary organizations have undertaken to change or modify their organizations to better pursue funding opportunities. Three-quarters of the organizations surveyed undertook moderate (42.6%) or extensive (31.9%) change to adapt to new funding realities. Change was modest for one-quarter of the groups (25.5%) (N=47). Changes were most pronounced among organizations serving ethnocultural groups (100% reported extensive change), followed by recreation, sport, arts and cultural groups. Environmental groups, on the other hand, were more likely to have resisted changing in response to funding pressures (42.9% reported modest change).

It is difficult to say definitively whether these groups would have made some of these changes regardless of the funding realities. Certainly, formalization and professionalization, to name two examples, are part of the process of developing from grass-roots groups to established organizations with paid staff. This said, the desires of funders did propel change. When asked whether organizational change was requested by existing or potential funders or decided internally, almost half of respondents (47.5%) acknowledged that change was a result of internal and external pressures. Four out of ten (42.1%) attributed the pressure for change to internal pressures, while one in ten (10.5%) said that pressure for change stemmed primarily from funders (N=38). Organizations serving ethnocultural groups were the most likely to say that pressure for change emanated from external funders, while recreation, sport, arts and cultural groups as well as environmental groups were more likely to attribute pressure to internal sources.

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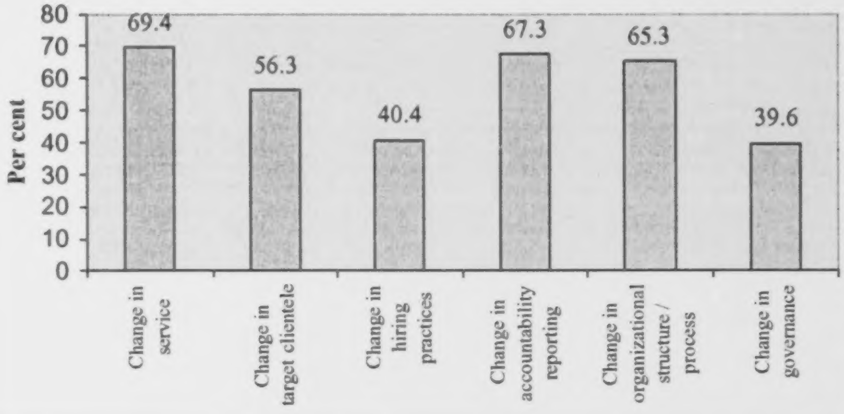

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## 5.4 Conclusion

> By the end of the 1990's voluntary sector organizations were showing serious signs of stress. Evidence was mounting on all fronts that the new approach to financing services was not working. Voluntary sector organizations reported difficulty with ever increasing accountability requirements; rigid funding policies and practices that impeded service delivery, funding contracts that did not support organizational capacity, or in some instances, even cover the actual cost of program delivery. Voluntary organizations find it increasingly difficult to meet their legal obligations to staff and many lack the organizational capacity to sustain fundraising efforts. Voluntary sector funding is increasingly unstable and short term. Voluntary sector organizations report a general failure to cover the growing shortfalls in government funding with other sources of funds. (Eakin, 2001: 2-3)

This is a summary of the situation facing many nonprofit and voluntary organizations in Canada today. The changing funding environment reflects, we have argued, the emergence of a new funding regime, one that threatens the continued sustainability of nonprofit and voluntary organizations. Pressure from funders is undermining the unique qualities of nonprofit and voluntary organizations, eroding the boundaries with the private market on the one hand, and with government on the other. As the evidence presented in this chapter illustrates, the nonprofit and voluntary sector is struggling to find its footing in this new reality, with varying degrees of success. Certainly the ingenuity, energy and vision that have characterized the nonprofit and voluntary organizations in the past still drive the sector. The nonprofit and voluntary sector will survive this current transition, but it remains to be seen in what form and how it will serve the public good.

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## Endnotes

[1] In order to get a sense of the intensity of the impact of the emerging funding regime, we created an index of potential impacts. We divided respondents into three groups: those reporting low impact; those reporting moderate impact; and those reporting high impact. We also looked at the impact scores of the different subsectors. All organizations serving ethnocultural communities (100%) and three-quarters of community benefit groups (75.0%) and health organizations (75.0%) reported moderate or high impacts related to funding change. Seven out of ten social service groups (70.0%) and two-thirds of recreation, sport, arts and cultural organizations (67.7%) and environmental groups (67.7%) reported moderate or high impacts.

[2] In the survey, core funding is defined as funding regularly received on an ongoing basis that covers among other things basic organizational or administrative costs. Project or program, by contract, was defined as funding that is often short term and conditional upon the receipt of identified deliverables. As well, restrictions are attached to the use of project or program funds. The average here refers to the trimmed mean. The average for funding attributed to projects and program at 61.6% is slightly higher than what one might expect looking at the share of the different funding sources for this group of nonprofit and voluntary organizations in Table 5.14.

[3] Competition for competitively tendered contracts was not as intense as the competition for

grants: 48.6% noted an increase in competition for contracts compared to over eighty per cent who reported increased competition for grants. This finding clearly illustrates the desirability of grant income for nonprofit and voluntary organizations. As we see in Chapter 4, however, the availability of grant income has declined. Consequently, competition has increased.

[4] Cost overruns are considered the responsibility of the organization. Funders expect organizations to cover shortfalls with a "contribution". Cost overruns are also considered the responsibility of for profit providers; however, they are allowed much greater latitude in negotiating their contracts which price in non program costs such as administration and profits.

[5] Nonprofit and voluntary organizations and charities in particular are not prohibited from carrying financial reserves. Rather, the Canadian Customs and Revenue Agency requires that at least 80% of receipted donations in a given fiscal year must be spent in the following year on charitable purposes. The Agency monitors the disbursement quota of charities closely to ensure compliance with tax regulations.

[6] We conducted a content analysis of our focus groups to identify the central ways in which current funding trends are affecting nonprofit and voluntary organizations. Concerns were expressed most frequently regarding human resources (35.4%), followed by the impact of funding practices on services, activities and beneficiaries (22.4%), and financial management (22.0%). The issues of governance and accountability, and autonomy were raised less often, accounting for 10.5% and 9.7% of the impacts discussed respectively. The theme of services and programs was raised most frequently in the arts and culture focus group. Human resource issues dominated the discussion in the community services focus group held in New Brunswick. Financial management and governance and accountability were raised more often in the focus group with environmental groups compared to the others that we held.

[7] Some groups noted that it was in fact very difficult to secure benefit coverage. Even when groups of nonprofit and voluntary organizations banded together to apply for a group benefit package, insurance firms were loath to extend coverage because of the uncertainty of funding. This is an acute problem in many areas of the nonprofit and voluntary sectors.

[8] According to the 2000 *National Survey of Giving, Volunteering and Participating*, most volunteering events and most volunteer hours were directed toward five types of organizations. Arts, culture and recreation (including sports) accounted for the highest percentage of volunteer events (23%) and volunteer hours (26%). These were followed by social service organizations (20% of events and 20% of hours), religious organizations (14% and 16%), education and research organizations (13% and 11%), and health organizations (13% and 9%). Other types of organizations (including environmental groups and international development) accounted for the remaining 17% of both events and hours (Hall, McKeown and Roberts, 2001: 40)

[9] See Valerie Howe and Paul Reed, *Study of Voluntary Sector Organizations in Ontario in the 1990s: A Report to Participating Agencies* (Ottawa: Statistics Canada, 1999). As well, see Social Planning Council of Ottawa-Carleton, *Doing Less with Less: Report of the 1997 Ottawa Carleton Agency Survey*, Spring 1998; Municipality of Metropolitan Toronto, et al. *Profile of a Changing*

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*World: 1996 Community Agency Survey*, May 1997.

[10] See Voluntary Sector Research Consortium, *The Capacity to Serve:* A *Qualitative Study of the Challenges Facing Canada's Nonprofit and Voluntary Organizations* (Toronto: Canadian Centre for Philanthropy, March 2003).

[11] See also Tendai Musodzi Marowa, "How the law of charities and advocacy can be changed to better serve immigrants and refugees," Paper prepared on behalf of the Ontario Council of Agencies serving Immigrants, September 2001.

[12] Between 1997 and 2001, the number of organizations receiving income from a diversity of sources increased. Organizations relying on government funding sources increased from 87.5% in 1997 to 93.5% in 2001. The percentage of organizations surveyed tapping sources of earned income increased by almost 10 percentage points, from 68.8% to 78.1%, and those tapping sources of private giving increased by almost 16 percentage points, from 78.1% to 93.8%.

[13] Key informants noted that an important shift in thinking is underway with respect to membership. The traditional model of many nonprofit and voluntary organizations is to solicit members to support the mission and goals of the organization, as well as to participate in organizational activities. Members pay a fee, and in turn, receive a product or service that takes many forms. They are also afforded the right to participate in setting the direction for the group through the election of members to governing boards of directors and other forums. The membership relationship is the foundation of the nonprofit and voluntary organizations; members serve as both the source of accountability and legitimacy for nonprofit and voluntary groups. However, the financial cost of maintaining and serving members can be very high. Anecdotal evidence suggests that membership can be a losing proposition for many nonprofit and voluntary sector groups. Moreover, the difficulty in sustaining an active membership in the organizations activities is also problematic. For example, typically few members participate in the election of directors.

The answer for some nonprofit and voluntary groups has been the revisit the relationship between the organization and member, to establish varying levels of service and participation, to more closely align the costs of membership services and membership fees. Thus memberships can range from a "passive" investment in the organization – members support the group to represent their interests for example – to more active forms where there is greater participation through the exchange of goods and services or direct participation in the organization.

In an alternative development, some groups are reconsidering the very definition of membership itself. Rather than "belonging" to the group, with reciprocal rights and responsibilities, some nonprofit and voluntary organizations are adopting a broader defining members as individuals or groups who participate in the group's activities. For example, a recreation group that participated in this study now identifies individuals who take part in their leadership training programs and other activities as members. They undertake to work with this larger group of these interested people or organizations as they develop and pursue future activities. It is no surprise that groups that largely rely on earned income are exploring alternatives to traditional, more costly, forms of membership.

[14] See Rashmi Luther, "Ethnocultural/Ethnoracial Advocacy Groups, State Funding and Charitable Tax Status," Unpublished Paper, October 2001. Available at www.impacs.org.

[15] It is also possible that organizations reported "fee-for-service" activity under this heading, thus increasing the potential scale of commercial activity in the nonprofit and voluntary sector. For our purposes, commercial activity is designed to produce a surplus for the organization. Fee-for-service activities are designed to recoup, at least in part, the costs of the product or services. They are certainly a form of earned income, but not a commercial activity *per se*.

[16] Over half of social service groups, recreation, sport, arts and cultural organizations and environmental groups viewed "commercialization" as positive, compared to health organizations, community benefit groups and organizations serving ethnocultural communities.

[17] Dart and Zimmerman illustrate these challenges in their study of two Canadian nonprofit organizations engaged in commercial activity (Dart and Zimmerman, 2000). One organization was a medium-sized social service organization with an annual budget of $1 million and 14 full-time staff, operating an Employee Assistance Program. The second group was an environmental organization with an annual budget of $300,000 that operates a used clothing collection service, where twice a year the group organizes a clothing drive and then sells the textiles to a "reseller." In both cases, the organizations were generating income directly and indirectly through these commercial ventures to support of the organization's mission-related programs. They found that the commercial activities did not provide a steady long-term stream of income, calling into question the assertion by proponents such as Ryan and others that commercial activity provides a more stable funding base for nonprofits than other sources of income (Ryan, 1999).

[18] Similar efforts to expand their earned income opportunities by increasing fee for service activities such as workshops and launching a commercial venture have not been as successful. The commercial venture failed.

[19] It is important to keep in mind that this group of organizations also reports increases in revenues over this time period in the order of 35%, related in large part to the expansion of activity. Overall, however, the larger number of study participants noted the increase in costs related to doing business, everything from rents to insurance costs. Indeed, the groups note that project funders are particularly reluctant to increase funding levels – either through upward amendments or under new contractual agreements – to take inflation and other project expense increases into account.

# Chapter 6: The Project Funding Roller Coaster

One part of the research for this study involved in-depth case studies of nonprofit and voluntary organizations. Their stories reveal the complexities of doing business in today's turbulent funding environment. Below, we present one story which highlights the evolution of an environmental group, from its voluntary roots to an organization today engaged in project work. It clearly reveals many of the challenges that nonprofit and voluntary organizations experience in their pursuit of mission, many of which stem from the sources and mechanisms of available funding.

## Early History

EG is a small environmental group based in a rural community. It was formed in 1989 by a local science teacher. The teacher was inspired to take action after attending a conference sponsored by the David Suzuki Foundation. The key message he took away from that conference was that it wasn't enough to simply look to government to make environmental change. We all have to look to ourselves and our communities to start the process.

The first meeting of EG was held on Halloween night. A number of community residents came together to discuss environmental action for their town. The focus of their early work was waste reduction. Like many other small communities, the town where EG is based did not have a "blue box" program. EG members came together to discuss ways of diverting waste and educating the public about the importance of such an initiative. To this end, they went to their municipality to discuss the possibility of organizing two trucks to collect materials for recycling. Working through local churches and service clubs, they solicited donations and volunteers to assist with collection. This work progressed; at the point when the town launched its own program, EG coordinated six dumpsters and had set up a reuse centre which is still in operation today.

## Organizational Structure and Governance

Like many small nonprofit and voluntary groups, the group evolved, drawing on the passion of a number of individuals. EG became incorporated in 1990 and set up a charitable foundation for fundraising purposes that same year. The group is run by a volunteer board of directors, all of whom are directly involved in the organization's activities – project development, proposal writing, fundraising, public education, and so forth. EG's members (numbering 105 in 2002) elect the board of directors, but the membership base is not particularly active, nor seen as the driving force behind the organization. Rather, the direction comes from a core of volunteers, specifically those serving as board members.

## Early Years of the Organization, 1989–1998

The mission of EG is "to protect, preserve and enhance our environment for the use and enjoyment of present and future generations through advocacy, education, recognition and projects." As such, the group is involved in a number of activities, all of which promote a change of individual behaviour towards the natural environment. As noted, the early work of EG centred around waste reduction. The group organized summer day camps, composting promotions, business waste reduction campaigns, a garbage hotline, a Christmas tree chipping service, recycling dumpsters, and a reuse centre for residents. EG also established an annual environmental award to recognize environmentally friendly businesses, individuals, and schools. In 1994, the group expanded its focus to include wetland awareness, water conservation, and shoreline preservation.

In its early years, EG relied on a mix of income sources to support its work, the most critical of which was the federal Environmental Youth Corps (EYC) program. In total, the EYC provided roughly $90,000 to cover the salaries of students employed by EG to run the summer camps between 1990 and 1995. EG charged a fee for its summer camps and workshops, and sold items such as coffee mugs and canvass bags. It collected membership fees from a small base of individuals and businesses, and solicited individual and corporate donations through promotions at local malls, concerts, auctions and garage sales. These monies were set aside in their environmental trust and drawn upon to carry out the public education work. However, the scale of activities was small. The annual income of the group and trust was roughly $3,000 per year.

In 1995, EG took the first step towards expanding the scope of its activities and generating higher revenues by developing and submitting an application for project funding. Specifically, EG applied to the provincial Ministry of Energy to develop and implement a Green Home Visit program for local residents and businesses. The decision to pursue project funding represented an effort to move beyond a strictly voluntary base and structure – characteristic of up to half of all nonprofit and voluntary groups in Canada – to enhance its capacity to meet mission. EG decided that if it was really going to make an impact on fostering environmental change in the community, it needed to undertake project work with paid staff and develop its organizational infrastructure.

The request for funds was denied in 1995 – a great disappointment for the group, which had built a network of interested partners supportive of the plans – and it came at a time when the group's energy was waning. EG had just decided to stop applying for summer students because they could not meet the supervisory requirements of the program. Human and financial resources were stretched thin. It wasn't until 1997, with the arrival of a new member to the group, that activity stepped up again. The new volunteer at EG offered to identify projects and raise the necessary funds, in conjunction with long-time members. The very flexibility of EG and its broad mandate allowed the efforts of this new member to expand the activities and reach of EG.

### The Pursuit of Project Funding, 1998–2002

In 1998, EG submitted another proposal to initiate Green Home Visits as a part of a green community action plan for the larger region, this time, to Environment Canada's EcoAction 2000 Fund. Part of the motivation behind this new focus was the desire to become a "Green Community." Green Communities are non-profit community enterprises "in the business of selling environmental action," i.e., behavioural changes and the uptake of green products and services. The core service of each Green Community is a Green Home Visit, where trained assessors visit individual homes to identify ways to save money, improve home comfort, and help the environment. A set of recommendations is provided for each homeowner.

In addition to the Green Home Visits, Green Communities also offer other environmental services and programs, depending on local needs. These include naturalization, revegetation and restoration projects, water quality activities, promotion of ecology gardens, the operation of public resource centres, and services such as ultra-low-flow toilet replacement, pre-purchase home inspections, indoor air-quality assessments, composter and rain barrel sales and installation, and tree planting.

Each Green Community operates independently. The umbrella organization, the Green Community Association (GCA), works with the members to develop new programs and services, and establish joint agreements with partners and suppliers of conservation products, as well as provide a forum for information exchanges. For example, the Green Community Association might negotiate to provide an environmental service with a provincial government. Local Green Communities can then undertake to provide this service in their own community, under contract to the umbrella group.

The decision to become a Green Community was an important one for EG. It helped focus the group's energies again on issues around energy efficiency. Moreover, the group saw the Green Home Visit as a very useful tool for encouraging environmental change on a number of fronts. The program would be of great practical value to their community and had the potential to stimulate the development of other environmental supports and services not currently available in that area.

As importantly, the decision to seek membership status with the Green Community Association was a decision to diversify their funding base. Up until 1997-98, EG had relied on donations, both cash and in-kind, and on federal job creation programs. With the application to the provincial government in 1995 and to the federal government in 1998 to launch a residential energy efficiency program, the group sought to substantially expand its activities and funding base. Specifically, they were committed to expand project income – largely from government – and earned income revenues through the sales of goods and services. This decision marked a turning point for the group, as it became necessary to adopt more institutionalized structures and processes.

In 1998, the proposal to EcoAction 2000 was accepted. From that point forward, EG has made annual applications to various funders for project funds, most often in partnership with other organizations. EG has moved ahead with various Green Community Association projects. In 1999, for example, EG undertook a three-month pilot project to help people upgrade to "clean-burning" woodstoves. At the same time, EG members participated in the development of a pesticide-free program. EG had been promoting pesticide-free practices and naturalization since the early 1990s. Along with other GCs conducting similar programs, they brought the idea to the Green Community Association who, in turn, applied to a public foundation for project development funds. "Pesticide Free Naturally" kits were produced, along with other promotional and workshop materials. In 2001, EG, wearing its Green Community hat, applied for funding to launch its own campaign. The group sought funding from a private foundation (to distribute the action kits and hold "Get Your Lawn Off Drugs" workshops) and to HRDC for staffing support. In 2002, EG was successful in securing a contribution from the EcoAction Community Funding program at Environment Canada – the successor to the EcoAction 2000 Fund – to expand the campaign, in addition to again negotiating access to staff through the EI job creation fund. As well, EG received additional resources to launch a Green Garden Visit program in conjunction with their work on the Pesticide Free Naturally campaign.

While EG was working to develop the Pesticide Free Naturally campaign through 1999-2000, the group was also involved in preparing two other funding applications to a public foundation concerned with environmental issues. The first application EG submitted on its own behalf was successful. Three new programs were launched in 2000 under this grant, one of which was the creation of a new park dedicated to the memory of Veterans, Peacekeepers and Heroes. The park featured native plants and provided information on the importance of planting trees to act as carbon dioxide sinks. (The bulk of funds for this initiative was raised largely through private donations and fundraising efforts.)

The second application was submitted by a consortium of environmental concerns, which had been involved over a three-year period in a biodiversity study of a local river. At the end of the period of study, the consortium, named the River Roundtable, produced a report. The question then became, how to take action on the report findings. Consortium members – including EG – decided to apply for foundation funding to develop and implement an action plan. EG was named the administrative lead in the proposal, because it was the only consortium member with the administrative capacity to administer the grant and it had the appropriate geographic boundaries for this particular funder. In 2001, the River Roundtable received a two-year grant of $135,000. While EG receives a small sum for its participation, it is not the lead partner, yet it retains primary responsibility for the project deliverables and the administration of funds.

More recently, EG has secured funding to launch a river stewardship program in conjunction with the River Roundtable. With funding from Environment Canada, this new one-year initiative is designed to reduce the impact of human activities on ground and surface waters in the regional watershed. Two staff have been hired on contract, and they are currently conducting water protection and natural landscaping clinics and other public education activities.

This overview of EG's activities is a necessary backdrop to understanding the financial trajectory of the group. The group has continued to raise funds through membership and fundraising. These monies support their ongoing activities, such as the composting promotions, the operation of the reuse centre, community awards and so forth. This source of income has been important in covering the costs of their operation, including insurance, fundraising expenses, and volunteer expenses. However, it was clear that the group would not have expanded its capacity to meet mission without additional sources of revenue from government, private donors, and from earned income opportunities.

## Trends in Funding Sources and Mechanisms

Looking at the last five years, EG has experienced a huge increase in its operating budget. Table 6.1 presents a financial summary for EG over the past five years, identifying revenues by source of income. Revenues jumped from $6,500 in 1997-98, to roughly $170,000 by 2001-02. By any measure, this is spectacular growth: organizational revenues grew 25-fold. Looking at year-over-year changes, we see that revenues jumped from $6,500 in 1997-98, to $67,000 the next year (coinciding with the first successful application to EcoAction 2000), then fell the next year, rose again in 2000-01 to approximately $67,000, then jumped to $170,000 in 2001-02. Even if the River Roundtable funding is excluded because it is largely "flow through," revenues in 2001-02 were still significantly higher, at roughly $90,000, than they had been five years earlier. To further fill out the financial picture, EG has no debt at present and has assets in the form of office equipment and furniture, valued at $3,000.

## Table 6.1

**EG - Financial Summary by Source of Income, 1997-2002**

| | 2001-02 | 2000-01 | 1999-2000 | 1998-99 | 1997-98 |
|---|---|---|---|---|---|
| Sources | Revenues ($) | Revenues ($) | Revenues ($) | Revenues ($) | Revenues ($) |
| Government* | $ 143,400 | $ 31,900 | $ 5,500 | $ 57,000 | $ - |
| Private giving | $ 21,670 | $ 29,000 | $ 2,635 | $ 10,000 | $ 6,500 |
| Earnings | $ 4,020 | $ 5,775 | $ 2,050 | $ - | $ - |
| **Total** | **$ 169,090** | **$ 66,675** | **$ 10,185** | **$ 67,000** | **$ 6,500** |

* Public foundations included under government source

Source: Project Survey

If we look at the funding profile of EG, we see a shift from its reliance on private giving through its initial phase (1989-98), to its more recent reliance on government sources of income. In 2001-02, using our typology of funding profiles developed in this paper, EG is highly concentrated on a single source of income – in this case, government. It had a greater diversity of income sources in 2000-01, but this was the result of an intensive fundraising campaign that EG spearheaded with town officials, veterans groups and so forth to develop a commemorative park. As such, we see a one-time spike in private giving.

The changes in revenue obviously follow their successful applications for funding from two principal sources: Environment Canada and a provincial public foundation that has identified environmental concerns as one of its priority areas for funding. While the number of income sources for the organization increased over the last five years, the real drivers in the budget at this point are project monies from these two government sources. While EG continues to rely on revenues from local fundraising and membership dues, and they intend to reform their membership and fee structure, they have not had great success to date in increasing funds from these sources. Similarly, individual and corporate donations have been flat through the past decade. In particular, the group noted the difficulty in approaching corporate donors in their town and surrounding area, stating that most local businesses are inundated with requests, and consequently, competition is fierce. As we have also seen, their efforts to generate more earned income through participation in Green Community Association projects have been limited. Revenues from this source have increased, but they make up a small portion of the group's global budget.

What is not evident in Table 6.1 is the extent to which EG has relied on access to HRDC's job creation fund to staff its projects. In 2002, at the time the case study was being conducted, EG had two full-time staff working on the River Roundtable stewardship project and another staff person who had been hired to conduct the Pesticide Free Naturally workshops. These three positions were funded through HRDC's Job Creation Program for limited terms. One member of the group was also working on contract to manage the projects on a part-time basis. Her salary was cobbled together from different project budgets and again, was time-limited. Indeed, the compensation that she received did not begin to cover the time that she had spent and continues to invest in the project work of EG.

EG does not directly apply for or manage job creation grants. It has an arrangement with another nonprofit and voluntary sector organization which places a number of EI-eligible job recipients in designated employment fields. Environmental work has been one of the priority areas for placement at HRDC. EG negotiates for a number of "person weeks" per year to carry out its project work, and this arrangement has worked fairly well. EG members have been struck by the high quality of many of the candidates who come to work for them, many of whom have been laid off by government and have extensive experience in the environmental field or relevant educational experience. But because EG is effectively piggy-backing onto a job creation grant of another organization, they may or may not get the people they need because the host organization has first call on eligible candidates. In addition, each year they are subject to the availability of eligible candidates, a problem which EG faced again in 2002.

The other thing that is not immediately evident from these financial statements is the degree to which EG still relies on volunteer labour and in-kind contributions to deliver on its projects and meet its mission. What we see with this group is that the diversification of income sources and the concomitant rise in revenues has not resulted in greater financial security for the organization. While it is certainly true that the scope of their activities has increased greatly along with the revenues, it has not decreased demands on volunteers to take on project work. EG still does not have an office in which to conduct its activities nor even one permanent staff person. The very nature of the group's funding arrangements has worked to both enhance and undercut their capacity to meet mission. EG is now running on a project-funding treadmill.

EG reported that their level of financial uncertainty has been "very high" over the past five years. Their sources of funding are "absolutely not" stable; the group is not certain of their renewal each year, because they are now largely reliant on project funding.

> "Virtually all of our funds come via applications for project-specific, performance contracts, i.e., we don't get the money unless we produce the results. Also, project funding is not 'repeatable' … .We function in a region of small towns and rural municipalities (approximately 25 in all) which don't have the dollars to contribute to supporting an organization such as ours. That's why our budget can go from $170,000 to $3,000 in one year." (EG member)

The group does not have "core funding," that is, funds received on an ongoing basis to cover, among other things, basic organizational or administrative costs. The only money that could be said to be core funding is the money raised by the group each year through its own fundraising efforts on behalf of its Environmental Trust – less than 5% of its budget. While the group has recently signed two contribution agreements that span a two-year period, most of the project funding they have secured in the past has been short-term – up to one year in duration.

The absence of core funding and its impact on this group is illustrated by the fact that even with revenues of $170,000 in 2001-02, EG still needed EI-eligible job creation candidates to staff its 2001-02 projects, and they still don't have an office. This has less to do with the level and source of funding, and more to do with the structure of project competitions and restrictive conditions attached to funding mechanisms, conditions which reinforce and produce financial and organizational insecurity and ultimately, undermine the ability of an organization to achieve its mission. The shift from private donations and memberships to project funding has certainly affected the scale of their activities, but not their level of financial security.

## The World of Matching Funding Grants

The experience of two different projects illustrates the difficulties that EG continues to experience in meeting its mission, and both examples touch on many of the themes raised in this report. The defining feature of both projects is that they are funded through matching contribution agreements, the first with the federal EcoAction 2000 Fund, forerunner to the current EcoAction Community Funding Program, and the second with the Green Communities Association.

### 1) EcoAction 2000 Fund: Home Comfort Service, 1998

In 1998, the members of EG applied for funding to launch a Green Home Visit. As noted above, the group applied to the Environment Canada EcoAction 2000 Fund to support its efforts to become a Green Community. The group believed that this new business line would be the ideal way to expand its reach and impact to the broader region. These new activities would also serve as an important source of earned income, in conjunction with project funds.

The 1998 Green Home Visit project was their first experience with the EcoAction 2000 Fund. This program – like the current funding program for community-based groups – provides financial support to nonprofit groups for projects that have "measurable, positive impacts on the environment." In funding community groups, the government's stated intent is to protect, rehabilitate or enhance the natural environment and build the capacity of communities to sustain these activities. Project funding of $100,000 is available over a maximum of two years; most projects are funded at much lower levels.

EcoAction requires that all applicants secure matching funds or in-kind support for their projects from other funders or sponsors. Indeed, at least half the total value of the project must come from sources other than the federal government. In-kind support can include equipment, materials or office space, volunteer time for project activities or professional services, expert consultation, or discounts offered on purchased items.

Parameters of the funding program expressly state that no funding is available for regular organizational activities such as operational expenses, human resources, or administration. Any capital expenditures made to complete project activities must be liquidated at the end of the project, unless the equipment is necessary to sustain the project over time and a prior agreement has been struck with the project officer. Commitments from other funders and project partners in the form of letters confirming their contributions must be secured before the approval of any application and the release of funds.

In the applications for funding, all projects must also demonstrate how the work will lead to positive, measurable environmental results. Project results can span a number of areas, ranging from socio-economic benefits to selected environmental objectives such as clean air. Each applicant must indicate which indicators they plan to track and the measures they are going to use.

Members of EG worked for over a year to put together an application for EcoAction 2000. While many of the contacts with the community and local businesses had been made in preparing the 1995 application to the provincial government, it still took a considerable amount of time to put in place the necessary in-kind and cash contributions. In the end, the level of funding awarded under EcoAction 2000 was only one-quarter of the amount that EG had applied for in 1995. There were also different conditions attached to the federal funding, conditions which contributed to problems the group experienced trying to deliver on their mission through this project.

With federal funding and matching contributions in hand, EG hired three people and a manager to conduct 700 home visits and carry out a variety of related public education activities, including establishing a storefront office to provide advice on environmental practices and opportunities in the community. Initially, EG charged a fee of $25 per visit, but because of resistance from potential clients, the group changed its strategy and asked instead for a contribution of $25 to offset their costs. Despite this change, EG carried out only 300 home visits.

Other components of the project were much more successful. The storefront environmental centre got a great deal of traffic, and staff were able to directly interact with a large number of people, to show them "how being environmental made good sense." The project did not cover ongoing staffing of the storefront, however, so the group had to increasingly rely on volunteer labour to meet demand.

Because of the structure of the funding program, the group could not modify their workplan or budget. The failure to deliver on the most demonstrable indicator of success – the number of home visits – spurred the regional office to cut back funding levels midway through the project. EG was then forced to lay off the three staff and retain the manager on a part-time basis only for the duration of the project. The storefront was closed and other activities scaled back. Indeed, the volunteer labour required to keep the project going increased exponentially as the federal funding was cut back, and the other sponsors certainly did not offset the costs of running the program.

In hindsight, members of EG felt they had been overly ambitious about the success of a home visit program. While governments, businesses and other community groups were keen about this type of initiative, there were no real demands from actual "consumers." More needed to be done to build the public appetite for alternative environmental services. In the words of one EG member, the community was "a tough nut to crack."

Funding levels were also inadequate to the task. No provisions were made to develop the group's capacity to undertake this work, despite the program's stated intent to develop the "capacity of communities" to sustain future environmental activities. Indeed, any global administrative functions were forbidden under the terms of the contribution agreement. Even when groups such as EG are trying to generate earned income through their activities in order to gain greater self-sufficiency, the funder requires that these monies be used to reduce or offset the funder's contribution. As a result, the very structure of these funding mechanisms reinforces the basic financial insecurity of the nonprofit and voluntary sector.

Similarly, there was no latitude in the funding formula to allow the project manager to capitalize on their successful initiatives, such as the storefront operation. The group was locked into a performance contract where success was measured against predetermined and untested criteria. EG had no real way of knowing beforehand that local demands would not generate 700 home visits, yet funding was tied to this measure.

Failing to meet performance targets – and the attendant threat of funding loss – constitutes a real barrier to building organizational capacity to meet mission over time. Certainly, EG learned a great deal from their experience and moved forward on their mission over the year. But *this* success was not captured in the final program assessment, and the personal toll on volunteers was very high. All in all, it was a rocky initiation into the world of project funding.

### 2) Green Community Association: Pesticide Free Naturally, 2001

EG's association with the Green Community Association (GCA) also operates in "partnership" model. In their second initiative with the GCA, EG participated in the development and delivery of a Pesticide Free Naturally campaign. The GCA took the lead in developing the materials and supporting interested Green Community members through information sharing on pesticide reduction and successful fundraising and implementation strategies. The GCA also trained one representative from each Green Community to coordinate the pesticide reduction campaign and coordinated performance and final financial reports to joint funders.

The GCA provided a contribution of $4,000 to each local community to launch their campaigns. Individual Green Communities – EG in this case – were responsible for providing their own office space and related telephone, administrative and travel costs for outreach activities. In addition to the funds provided by the Green Community Association, each community was expected to raise a minimum of $6,000 in cash or in-kind towards campaign expenses and to raise additional funds to cover the costs of producing 500 kits at a cost of $3 each to reimburse the GCA. Participating communities were expected to report on all sources of local fundraising, including in-kind contributions and to provide progress reports on their local campaigns for the GCA and their local campaign funders. As well, local groups were required to conduct a follow-up survey of kit recipients.

In the case of EG, the group secured funding under HRDC's job creation program to staff the project (worth nearly $12,000), and they were successful in getting funds from a private foundation to cover the costs of producing 1,000 kits and in raising another $750. All of the project management time and administrative expenses were donated.

The campaign was very successful for EG. The 1,000 kits were distributed and many people participated in their workshops. The campaign highlighted the issue of pesticide run-off into waterways and as such, linked to other EG activities areas, including water quality conservation and its river stewardship program. But the success of the program has not resulted in greater security for the organization. Conditions attached to the matching funding – and the very complexity of these arrangements – worked against the group in its effort to achieve a secure organizational base for its work.

## Assessing Matching Funding Arrangements

Participants in matching funding arrangements have likened the experience to building a house of cards. On the one hand, the requirement to build partnerships in support of a funding application is positive. These partnerships can foster community engagement in endeavours such as environmental preservation. Many smaller contributions can result in a project or program with far-reaching impact. From the funders' perspective, they see the positive value of spreading limited dollars across a broader range of groups and issues.

Yet like any house of cards, the structure is inherently fragile. If one card shifts or is removed, the house can come tumbling down. With matching funding, funders such as the federal government through programs like EcoAction require groups applying for support to have all of the developmental work done "up front," that is, all of the other contributions of cash, time or materials must be committed before the government will consider its own contribution. The burden on small groups like EG to line up partners, cash sponsors and in-kind donations is huge. In effect, this requirement works against the promise of matching funding arrangements: that is, the power of leveraging. While the promise of government funding may leverage project support, it can certainly not be considered a "sure thing." And the lead time required to develop the partnerships and contributions can be a real problem if, for instance, a corporate partner pulls out because of time delays. Yet without a firm commitment from a primary funder, it is difficult to get others to commit. There is a real sense, reported in many of the focus groups, that each funder wants to be "the last in" – an attitude not conducive to partnership building.

One of EG's project staff recalled an incident which captures this paradox perfectly. For many months, the project manager of the Pesticide Free Naturally campaign tried to hire someone through HRDC's job creation program to work on the campaign. As mentioned earlier, this was the only way that EG could staff its projects because there are usually no funds for salaries in matching fund agreements. In 2001-02, EG had difficulty finding an appropriate person – or any person at all – but finally they found someone and initiated the hiring process. The EG manager was then informed that there was a provincial freeze in effect for all hiring, meaning there were no funds available to subsidize this job placement.

This presented a huge problem for EG. They had no funds to hire someone to conduct their Pesticide Free Naturally campaign, and a larger funding crisis loomed. EG had secured support for this Green Community project through the EcoAction Community Funding program. Hiring personnel through HRDC's job creation program was considered to be part of EG's in-kind contribution under the terms of this matching contribution program. But without a job creation subsidy, EG could not meet its requirements for in-kind contributions, thus threatening funding for the whole project. The hiring freeze also threatened their new Rural Water Stewardship program

EG looked into hiring the candidate through another nonprofit organization in a larger urban centre that had been contracted by HRDC to do job placements, but it would have added an additional $2,600 to their budget – money that had not been accounted for in the $20,000 project budget. In the words of the project coordinator:

> "As you can imagine, all this simply adds to the hardships of doing what we are trying to do. I personally think it's completely unfair. We, all of us, are already 'subsidizing' this work – with our time, our out-of-pocket expenses, our lower incomes, etc. Our passion is being exploited. A kick in the head like this hiring freeze makes you wonder if any of the powers-that-be really care. I know that sounds trite, but when you're working for the common good, it would be nice to think that the manifestation of the common good – government – appreciates it in some way and doesn't go out of its way to make it harder!" (EG member)

In sum, matching contribution agreements can provide an opportunity to encourage partnerships and community involvement. But they can – and do – work to undermine the efforts of nonprofit and voluntary organizations such as EG. As a result of the structure of these funding programs, groups are not able to commit to continuing programs and services and they cannot provide consistency in staffing. A great deal of energy – largely unpaid labour – is diverted into building and maintaining the partnerships, rather than being channelled into the delivery of programs. As a result, "the organization exists for projects, not mission" (EG member).

## Impacts for the Organization

The impact of these types of funding trends and practices is evident in reports about groups' financial health, including that of EG. One of the main themes to emerge from the focus groups and surveys is that organizations are working harder to secure funding to meet mission. The "cost" of acquiring or maintaining income – everything from donations, to grants and contributions, and competitive contracts – has increased over the last five years, in terms of both the human and financial resources required.

EG reports that they are working harder to fund their projects in an increasingly competitive environment, particularly for project funds, volunteers and members, as well as for public support. For example, the group worked for over a year on one application to a public foundation, going back and forth with the project officer, trying to fit their ideas into the language and mission of the funder. The application was eventually approved, but many group members found the process "very frustrating" and "discouraging." While the group is used to marketing their ideas to the community – in order to affect environmental change – they found the intensely complex nature of this grant process daunting. Having spent over a year on the proposal, they ended up scaling back their request for funds – and the scale of the project – because of the amount of time and complexity involved in applying for a larger amount and the time involved in the approval process.

In another example, EG made two applications for funding in 2001-02, one of which was turned down. The first application took two weeks to complete (over a two-month period), while the second application took six weeks to complete over a three-month period. With the successful application, it took another six months before EG was notified and a contract with the funder negotiated. The actual completion of the contract took place *one month after* the official start of the project. EG was expected to start the project, but they did not have any funds to do so. In essence, the group – like so many others – was expected to bankroll the project using its own funds – a huge saving for the funder. To add insult to injury, they were prohibited from claiming any financing costs incurred in fronting the projects costs, and they could not be reimbursed for any costs incurred before the contract was signed.

EG has also noticed other ways in which funding practices have changed. For example, there has been an increase in the number of conditions attached to the receipt and expenditure of funds from both government and non-government funders compared to five years ago. There are increasingly stringent reporting and compliance requirements, reflecting the overall trend among government funders in particular to more detailed and time-consuming project tracking. Most of the projects that EG is involved with require quarterly performance and financial reports, each of which uses distinctive reporting formats. EG has also noted an increased number of restrictions on the use and expenditure of project funds. Most funders typically will not cover an organization's capital needs, including computers. None of EG's funders will allow them to include any administrative costs in their project applications, such as for rent, phone, utilities, insurance, and the like. As a result, this group – like so many others – struggles to find creative ways to cover these core costs through project funds. (For example, if EG receives a contribution under the EcoAction program of more than $25,000, the project must be audited. In completing the requirements for funding, EG is able to get their accountant to conduct an audit of the project and the Environmental Trust for the same cost.)

Consequently, EG has made little progress in enhancing its long-term capacity to meet mission. The group notes that it has experienced:

- cash flow problems;
- restrictions in their ability to fund operational functions;
- decreased flexibility in managing project funds;
- high staff turnover;
- greater demands on staff and volunteers in terms of time and resources;
- restrictions in their ability to meet community needs; and
- greater difficulties in remaining connected to their constituency and community.

Not all the changes over the past five years have been negative. Certainly, the group believes that moving into projects was the right step and that they have expanded the scope and impact of their work. The pressure to be more "business like" is seen as generally positive. Moreover, as a result of funding pressures and the quest to diversify funding sources, EG has expanded its focus to include more universal issues such as climate change and safe water, tying them to very practical local issues. The group believes that this focus will be more successful for them over time, rather than a focus on local, "naturalist" issues. While EG members believe that funding mechanisms like matching contributions ensure that the group is project driven, as opposed to mission driven, the group reports that it has not experienced mission drift per se. All of their work still falls within the admittedly broad, and deliberately expansive, mission of EG.

### Moving Forward

In 2000, EG initiated a strategic planning process to develop a mission and planning process, 11 years after their first meeting in 1989. Many planning sessions were held. Specific strategic directions and actions were identified over the short and medium terms. EG reviewed a range of capacity issues including their governance structure, their membership structure and activities, their use of volunteers, internal and external communications, as well as administrative resources.

Members of the board identified new project areas to build on their current work in waste reduction, toxins, climate change and water issues, and looked at ways to improve their public education activities – a key component of their mandate. Finally, the group looked at their capacity to raise funds to meet mission.

While group members thought the exercise was positive, there was too little time to work through many of the issues raised and prioritize a select few for action. EG remains a fairly "loose" organization, with little in the way of formal processes and procedures. This informality remains one of its strongest features, according to board members, but it was also recognized as a problem as well. EG has been increasingly expanding the number of projects it is involved in, yet there are still no full-time or even part-time staff. EG continues to rely on the volunteer labour of its board members to oversee program development and management. Only now is the group able to pay for some of the expert advice that board members provide through projects. For example, one board member conducts naturalization workshops for rural landowners. Previously, the group was lucky if it could find funds to cover his travel to these events and workshop materials. Under the new Green Garden Visit program, EG can now pay for speakers at such events. Time and again, EG members stressed that they liked the informality of their group, because individual members had the ability to develop a project and run with it; indeed, they believed it was a key reason behind the group's longevity. But they also recognized the real limitations of this model, especially as the scope and complexity of their activities grows.

The group concluded that to really move forward on their mission, they needed to consider hiring a "permanent" Executive Director and Assistant and developing the administrative infrastructure necessary to expand – including establishing an office. Moving in this direction would greatly assist them in expanding and mobilizing the membership, attracting, training and retaining volunteers, improving their internal and external communications – including an up-to-date website – and improving EG's ability to develop and follow through on organizational activities. Creating a sound organizational base would also improve their financial management and fundraising capacity. On this last issue, one EG member said they had originally set up the Environmental Trust to solicit charitable donations for their work, but they had made almost no use of their ability to issue charitable receipts. For him, this was directly linked to the limited way in which the group attempts to raise funds from individuals and community businesses. Much more coordinated efforts are needed to fine tune their message and extend the group's reach. Much more coordinated efforts are needed to market the organization to its own constituency, the broader community, potential project partners, and to existing and potential funders. And more coordinated activities are needed to expand the membership base, which has eroded over the last few years; it now stands at 105, down from 140 five years ago, and significantly down from 300, 10 years ago.

Just as importantly, hiring an Executive Director and support staff would also be the "right" thing to do. Certain volunteers have put innumerable hours into EG projects with no real compensation. Yet group members believe that stewardship of the environment is a critical public role and that people should be paid adequately for their labour. Like so many other environmental and nonprofit and voluntary groups, EG works to meet mission by drawing on the good will and labour of volunteers, many of whom sacrifice a great deal and live paycheque to paycheque. Volunteers participate because of their passion for these issues, yet it is also true that situations like this can be exploitative. Certainly, members of EG believe that governments are capitalizing on conditions in the sector. The endemic financial uncertainty of many nonprofit and voluntary groups, including EG, not only undermines the effectiveness of the organization's work, it also exacts a high personal toll on the organization's volunteers and staff.

Creating a more "institutionalized" or "formal" structure, where there is greater distance between the board of directors and the activities of the organization, was identified as a key direction to pursue. Members complained that while EG had pursued great things in the community for over a decade, they had never been able to take advantage of their success in any systematic way. Membership was one example. Because they did not have any dedicated resources to take care of membership, or to keep track of the people and businesses who had attended their workshops or expressed interest in their work, their outreach had been limited. For example, they were not able to market new educational programs to previous clients, or mobilize existing and potential support for their advocacy work in the community around issues like water preservation.

These key problems with the structure of EG and its work were identified through the strategic planning process, but the group has not yet had the opportunity to return to their draft plan. Board members – by their own admission – are caught up in new projects and the issue has been pushed to the side. In the absence of a champion of organizational development, the demands of project work have easily pushed aside organizational reform, especially so in a group where none of its core functions are funded, and its contract staff are scattered over the 25 rural municipalities it serves.

Certainly, EG has attempted to diversify its funding base, generate greater revenues and reduce its expenditures. To this end, they have launched new programs. They have attempted to increase membership, they have approached corporate donors, held numerous fundraising events, sought in-kind support, and increased charges for selected workshops. Yet their success has been limited. Even with the increase in revenues, the group has been unable to amass the funding necessary "to make us more stable, to step off the treadmill … to be self-sufficient" (EG member).

## Conclusion

In the words on one EG member, in an ideal world "if you had any question about the environment in our area, you would phone EG. We want to support people to make change, but we can't commit to anyone. We never know if we will be around … .We would like to be proactive, to be moving forward, but we need consistent funding."

EG demonstrates the power and passion of nonprofit and voluntary groups across Canada. With limited resources, it has successfully promoted environmental change in its community and helped fuel the Canadian environmental movement. It is no wonder that a number of their board members have been recognized as community volunteers of distinction. At the same time, EG has run into obstacles in trying to move beyond its small base, undermined by the very funding opportunities that have been designed to assist the work of such groups. The contradictions are not lost on their members.

# Chapter 7: Nonprofit and Voluntary Organizations under Stress

At the beginning of this report, we indicated how little was known about the nonprofit and voluntary sector in Canada. If this study serves no other purpose, it has at least added to the growing cache of knowledge about this sector at the beginning of the 21st century. The irony is that we are gaining greater understanding of the contributions of the sector and the challenges it faces, at a time when nonprofit and voluntary organizations are warning that their capacity and essential character are at risk.

There is another key confluence of time and circumstance. Society today is increasingly looking to the nonprofit and voluntary sector to serve and represent the public, even as the ways and means of supporting these organizations in their various roles – delivering services, connecting communities, speaking for the vulnerable, and building social capital – are becoming less stable.

The organizations which participated in this study showed that the nonprofit and voluntary sector is tremendously resilient and energetic at the level of individual organizations. Faced with unprecedented financial pressures and volatility, organizations are actively trying to manage their funding pressures and foster greater self-sufficiency in numerous and creative ways. That being said, however, by sharing their financial and organizational struggles and successes for this study, they have provided an overview, at a sector-wide level, that is disquieting.

## Funding Matters

The purpose of this study was to explore the impact of funding sources and mechanisms on the financial capacity and long-term sustainability of nonprofit and voluntary sector organizations. Overwhelmingly, study participants affirmed that a stable, preferably independent, financial base is essential for their organizations' current capacity and future sustainability. The problem is that most of our respondents do not have – or no longer have – such a base.

Participants also pointed to other factors that help sustain healthy organizations, including: "Strong, committed staff supported by an energetic working volunteer base" (#38); "un excellent leadership et une bonne gestion" (#48); "l'aptitude a comprendre et a définir la position unique d'un organisme et son rôle dans la communauté" (#28); "a solid reputation for integrity and competence" (#10); "the capacity to take risks and innovate" (#51); and "the courage to take positions on issues that you believe are right" (#25).

While funding is not the only thing that matters when it comes to organizational capacity and sustainability, it matters a lot. More specifically, the funding source matters, the funding mix matters, and the funding vehicle or mechanism matters. Raising funds has always been a challenge, but there is now more uncertainty and instability in the funding environment, related in large measure to the erosion of sources of core organizational support and the rise in project-based funding from both public and private funders. Nonprofit and voluntary organizations now operate under intense financial pressures and they face significant operational challenges, the consequences of which are influencing their direction and challenging their legitimacy.

## "Whatever Gets the Money"

The emerging funding regime is calling into question how nonprofit and voluntary organizations define their mission and programs, how they structure themselves, and generate the resources necessary to sustain their activities. Many worry that organizations are being driven to take on programs or activities that dilute their missions, stretch their resources and erode their base of legitimacy. Mission drift – or "mission yank," as one study participant called it – is a serious concern.

Focus group participants were candid about their struggle to stay true to mission in this funding context. "We have opportunistically applied for funding without understanding the relevant implications for our mission" (#1). "It is difficult to maintain a shared vision when you are dealing with day-to-day crises" (#32). One telling comment was: "We are left applying for small pots of money to offer a program to a certain population. You tend to develop whatever gets the money attitude, which is very sad" (#37).

Frustrations related to funding pressures were palpable. Overall, there was a feeling among the organizations surveyed and among the study participants that nonprofit and voluntary organizations were turning themselves inside out to secure funding for their organizations. There was generally a feeling that organizations were working "within mission," that is, pursuing projects and activities germane to their overarching goals and aspirations. At the same time, fully one-third of organizations surveyed (32.7%) stated that they had experienced mission drift within their organizations (N=49).

This is not to say that the organizations participating in this study have deliberately set out to dilute their mission or focus. Rather, for many organizations, "mission vagueness" – as Burton Weisbrod has described it (Weisbrod, 1998) – and organizational change appear to be important strategies for diversifying their resource base and achieving long-term sustainability. One group put it this way: "Our mission has been pretty focused for 24 years. And it is broad enough to allow for a variety of activities and programs" (#3).

Organizational change such as income diversification and "mission vagueness" could be seen as a sign of organizational adaptability and health, as groups branch out into new activities, establish endowment funds, redefine membership, and increase fees, for example. Within this context, Luc Juillet and his colleagues argue that mission vagueness is rightly viewed as "a tool of resilience" and not as a "passive reaction to external change" (Juillet et. al., 2001: 42).

But there is an inherent danger that mission vagueness and other funding-driven change is providing cover for any activity that might generate revenue – in effect, confusing the means and ends within a given organization. Chasing project dollars or launching a commercial enterprise, for example, can significantly stress an organization and its staff. Mission drift under the guise of income generation can also undermine organizational autonomy and decision-making. Many examples were raised throughout our study of how funders were influencing program content through the extension of greater controls. Increased targeting of funding by public and private funders is similarly working to erode organizational responsiveness to community needs.

Further to this point, mission drift can threaten the connection between a nonprofit and voluntary organization and its members. An organization's legitimacy hinges not only on its ability to provide a continuing stream of activities and outputs efficiently and effectively, it is also determined by the degree to which the organization and its work are valued by its stakeholders. Organizations that drift away from their mission run the risk of eroding their base of legitimacy and credibility. It is this web of relationships between an organization and its stakeholders that enables and sustains it over the long term.

### Blurring of Traditional Boundaries

In many fundamental ways, the traditional roles of the public, private and nonprofit and voluntary sectors are being altered, and the boundaries between them are blurring.

Specifically, governments have shed many of their long-standing service roles and replaced direct provision of services with contracting out, notably with the nonprofit and voluntary sector. At the same time, private sector firms have begun to enter "markets" once occupied almost exclusively by nonprofit and voluntary organizations, and they are increasingly marketing their products through identification with causes and organizations in the nonprofit and voluntary sector. In response to these pressures from both public and private funders, nonprofit and voluntary organizations have had to become more "businesslike," not only in their pursuit of earned income opportunities, but in their governance and management practices as well.

Josephine Rekart (1993, 1997), Paul Leduc Browne (1996), and John Shields and Mitchell Evans (2000) have written about the significant consequences of government contracting with the nonprofit and voluntary sector. As nonprofit and voluntary organizations – and social services, in particular – have become increasingly entwined with government funders through new contracting mechanisms, the extent of funder involvement in service has intensified and the threat to their independence has grown. These authors argue that over time, the boundary between government and nonprofit and voluntary organizations has been eroding, as organizations are transformed into a service arm of the state, a process which Forder and Knapp describe as "coercive isomorphism" (Forder and Knapp, 1993; cited in Leat, 1995: 173).

Some argue that the threat to the character and autonomy of nonprofit and voluntary organizations is exaggerated, that the relationship between governments and contracting organizations is better described as an interdependency (Kramer, 1990). Yet evidence from this study would suggest that funders – and public funders, in particular – have increased their control over the day-to-day operations of nonprofit and voluntary organizations of all types.

Organizations involved in contractual relationships with government funders report being under pressure to become more like their funders: large-scale, bureaucratic, professional organizations committed to service provision. Any endeavour not directly related to a program or project – including advocacy and community outreach activities – is effectively discouraged. It is only organizations with the ability to attract or generate funds from other sources that are really in a position to resist these pressures from public funders.

Nonprofit and voluntary organizations are similarly being pressured by market forces through the imposition of new management and governance models, and increasingly in some sectors, through direct competition with for-profit service providers. Successful organizations in a competitive funding environment are likely to grow to resemble the for-profit or commercial organizations with which they are forced to compete. "When non-profit and for-profit firms operate in the same environment, producing the same services and competing for the same customers," Frances Woolley writes, "they will tend to produce similar quality goods and services" (Woolley, 2001: 2). In particular, increased competition creates pressure towards increased size, economies of scale, professional management, organizational sophistication, and the ability to access capital to expand services.

It is a sign of the times that much of the pressure to adopt a market model of organization, governance and service provision is coming from public funders as well as from foundations and United Ways/ Centraides. Governments and other funders turn to the nonprofit and voluntary sector because they are effective, responsive and invariably cost-effective. At the same time, funders are seeking to insert nonprofit and voluntary organizations into the market, structuring funding arrangements and fostering intense competition for resources that undermines the unique and valuable contributions of the sector: its "strongly idealism-based ethos which places highest priority on responding to need or producing social good, and doing so via indigenous, cooperative, mostly layperson- or community-based action" (Reed and Howe, 1998: 52). The contradiction between the stated aim of funders and donors to support the valuable work of nonprofit and voluntary organizations and the ways in which this support is currently structured and delivered is contributing to the global climate of uncertainty and volatility within the sector.

## The Growing Divide

Even the diversity of the sector – a characteristic considered to be one of its great strengths – may be eroding. There is still a healthy mix of different kinds and sizes of organizations operating in different subsectors from sports to immigration services. But our study indicates that within the context of increased competition for resources and the dominance of a project-based funding regime, a divide within and across the sector is opening up. A gulf is widening between the larger organizations, with their professional staff and strong administrative capacities that can ride the funding roller-coaster, and smaller organizations with less infrastructure that are more likely to fall off. There is also a growing division between service delivery organizations and those which are primarily concerned with advocacy, and which are now less likely to get on the funding track at all.

It is perhaps not surprising that the new funding regime tends to favour larger, professional service organizations. These are the groups that are able to identify, develop and secure project funding, create stable donor bases, and successfully compete for market share. Because larger organizations can achieve economies of scale, they are more likely to have the infrastructure necessary to administer and account for project funding or operate a commercial venture, particularly within a funding environment where little money is available to cover these types of costs.

Moreover, larger organizations are more likely to have an established financial base with reserves, a secure donor or membership base, and/or an endowment fund, and they are more likely to have access to commercial credit. Similarly, those with multiple service programs and income streams are best able to weather the financial ups and downs associated with project funding at this juncture. They are in a position to front the funds for project start-up when contracts and payments are delayed. The presence of many types and sources of funding also creates the opportunity for cross-subsidization within the organization, thus the possibility of generating or identifying funds for core activities such as governance, human resources, community outreach and the like.

Success begets success. Within this environment, smaller or medium-sized organizations are at a significant disadvantage in the competition for donations, sponsorships and program or service contracts. Among those participating in our study, groups serving rural communities and those representing marginalized or economically vulnerable groups spoke about the significant challenges they are experiencing trying to generate financial resources and deliver programming under the new funding regime. Similarly, newer organizations are having a difficult time establishing themselves, particularly if they are not able to acquire charitable status for the purposes of fundraising. Environmental organizations and those serving ethnocultural and ethnoracial communities have had trouble in this regard.

The other divide evident in the nonprofit and voluntary sector is the division between organizations primarily involved in service delivery and those engaged in advocacy on behalf of their members and constituents. Overall, there has been a shift in focus and dollars towards what are perceived to be "neutral" service providers, as governments have moved to contract out public services and reduce traditional support for groups committed to social justice and equity, particularly those representing the socially disadvantaged. These shifts in funding have taken place against a backdrop of greater scrutiny of interest groups and charities generally and specific steps by Canada Customs and Revenue Agency to more strictly interpret the law and regulations governing charities. An atmosphere of "advocacy chill" was identified by many organizations in our focus groups, where organizations in all sectors have been challenged to curtail representational activities central to their role and mission.

## What Does it Matter?

What does it matter if some nonprofit and voluntary sector organizations are drifting away from their mission in order to keep themselves afloat? What does it matter if some sectoral roles are abandoned, or are subsumed by the private market? Who cares if some organizations can't cut it in the new funding world?

It depends. It depends on whether Canadians care about losing the contributions that nonprofit and voluntary sector organizations make to life in this country. Those contributions are different from those of the private sector and government, and generally not well understood. Nonprofit and voluntary organizations are not only effective and responsive service providers, they are advocates, representatives and community-builders.

The pressures for change are large, and the challenges of managing those pressures even larger. Organizations that appear to be best positioned to survive this period of transition – those with the service capacity, economies of scale, revenue flows and professional management – may flourish. But many other nonprofit and voluntary organizations – those rooted in communities and civic values, carrying out vital community work – may not survive, at least not in their current form.

If some of these organizations survive, but are pushed through competition and project-based contracting into becoming more like for-profit providers, they will likely lose those features that made them what they are. In the United States, where the forces of commercialization are more pronounced, William Ryan found that some nonprofit organizations have actually converted to for-profit status in order to raise capital to compete for social service contracts. In his opinion, the threat is not that nonprofits will be driven out of the social service marketplace, but that in their struggle to compete, nonprofit groups "will be forced to compromise the very assets that [make] them so vital to society in the first place" (Ryan, 1999: 128). Within the Canadian sector, there are fears that organizations in competition for donations, grants, contracts and sales are being forced "to market themselves and their social contribution in business terms and adopt modes of operation that could be ill-adapted to their community roots" (Juillet et. al., 2001:26) and the needs of their beneficiaries.

It is precisely those "community roots" that are among the sector's major assets and they are part of what makes the nonprofit and voluntary sector unique. If the scramble for funding and increased control by public and private funders erodes those essential linkages between nonprofit and voluntary organizations and their communities and the people they serve, the service may become disconnected from the needs, and the capacity of communities to help themselves may be diminished.

Nonprofit and voluntary organizations are also advocates, representatives and community-builders. The sector serves as a venue of active citizenship, fostering and sustaining connections among citizens and communities and governments. As advocacy activities by nonprofit and voluntary organizations – particularly those undertaken on behalf of historically disadvantaged communities – have been marginalized, fewer voices can be heard contributing to the debate on the defining issues of our time.

Nonprofit and voluntary organizations facilitate and enhance the functioning of democracy in a number of ways. "They provide information to policy makers; they redress political inequities that exist when politics is materially based; they can act as schools of democracy; they provide alternative governance to markets and public hierarchies that permits society to realize the important benefits of cooperation among citizens" (Cohen and Rogers, 1995 cited in Turner, 2001: 201). If the nonprofit and voluntary sector is weakened, Canadians' opportunities for social participation, for democratic involvement, and thus, for active citizenship, will be eroded.

Writers such as Robert Putnam emphasize the role of nonprofit and voluntary organizations as community-builders engaged in the reproduction of social capital (Putnam, 1993). The presence and healthy functioning of nonprofit and voluntary organizations serves to forge social networks within and between communities of interest that, on the one hand, enhance the lives of individual citizens, and on the other, underpin effective democratic political systems and strong economies. Pressures to become lean and mean can – and do – undermine the ability of nonprofit and voluntary organizations to serve as vehicles for citizen engagement and community building. Already we are seeing organizations pitted against one another in the competition for funds.

Much is at stake in this new world. Those unable to represent their interests, much less secure economic and social goods, may be sacrificed as we toy with forms of direct representation. It is not hard to imagine that the polarization so evident in economic and social life in Canada will come to characterize political life as well. As nonprofit and voluntary groups are transformed or sidelined, "the loss of the public spiritedness and the public goods that have traditionally characterized the activities [of the nonprofit and voluntary sector] is in danger of going unnoticed" (Alexander, Nank and Stivers, 1999: 463).

The threat of loss has not gone unnoticed within the sector itself. Nonprofit and voluntary organizations are struggling with financial uncertainty and volatility resulting from Canada's new funding regime, albeit to different extents. Yet in one way or another, they are united in their desire to define a new path, to chart a new course in pursuit of their mission and connection to community. In this process, nonprofit and voluntary organizations walk a fine line between "creative tension" leading to innovation and "chronic stress" leading to stagnation or even organizational failure.

We know that many representatives of nonprofit and voluntary sector organizations who took the time to meet with us and provide information about their financial capacity are hoping that this report will generate constructive discussion and ultimately, beneficial change. The sector is not looking for a free ride. For example, it does not expect, nor does it want to be, unaccountable to funders. On the contrary, it seeks recognition for its multiple accountabilities, not only to funders, but to clients, partners, its volunteers, and its communities. The intention is not to resist all change in funding mechanisms. Many, if not most, of the organizations with whom we spoke have embraced change and have worked to become more effective.

As this study documents, the challenge is to achieve a balance between what all organizations need – stable, reasonably predictable and adequate funding that covers the costs of the operation – and what all funders need – assurances that money is being well spent on mutually agreed upon purposes by vibrant and relevant organizations.

The nonprofit and voluntary sector has rightly been characterized as the third pillar of our society, alongside government and the private sector. This pillar is showing some serious cracks, and our study suggests that action needs to be taken by public and private funders, in concert with the nonprofit and voluntary sector, to ensure that those cracks do not become major fractures. The people working and volunteering in the sector continue to show great commitment and creativity. And many of the funding trends that have been identified were not intended to cause harm – the motives were positive. There is a real and timely opportunity to modify funding strategies and reverse some of those unintended consequences.

If nothing is done, the sector will continue to suffer from increasing instability, and for a significant cross-section of organizations, their capacity to achieve their mission and serve their clients and communities will continue to erode. In the end, all Canadians will be the losers.

# Appendix A: Methodology

## Phase I

In Phase I of this project, the project team set up the parameters of the study and identified research issues of interest. The focus was to establish the necessary building blocks to conduct an in-depth examination of funding in the nonprofit and voluntary sector. These included a comprehensive review of the literature and of existing Canadian data, the identification of key issues and central research questions, and the articulation of our research methodology, including the development of research tools to conduct our investigation.

### Literature Review

Our first task was to conduct a literature review and collect background information. We examined primary and secondary sources on funding for the nonprofit and voluntary sector in order to situate our research questions, including methodological issues related to nonprofit and voluntary sector research. We reviewed the following:

- Canadian literature;
- selected international literature;
- available quantitative data (i.e., T3010 data file; Survey of Volunteer Activity 1987; National Survey of Giving, Volunteering and Participating 1997, 2000); and
- relevant government studies (Treasury Board; Department of Finance; HRDC).

Through our literature review, we identified key issues from the perspectives of the nonprofit and voluntary sector, public/private funders, and the general public, and we finalized research questions related to our project objectives. At this point in the project, we also conducted interviews with selected experts in the field.

### Research Tools

Based on our review of the literature, as well as key informant interviews and discussions with our Advisory Group, we selected the most appropriate research methodology and tools to address the central question of this study: what is the impact of changing funding trends on the sustainability of the nonprofit and voluntary sector.

In this phase of the project, we developed the following:

- operating definitions and descriptions of key project concepts, including: funding source, funding mechanism, financial sustainability, financial capacity, public/ private funders, and nonprofit and voluntary sector organizations.
- a comprehensive list of sources of funding and funding mechanisms for nonprofit and voluntary organizations
- a sampling methodology for the study, identifying selection criteria for proposed focus groups participants and subjects for in-depth case studies.

- other methodological tools, such as a discussion guide for interviews and survey instrument for participants.

We adopted the working definition used by the VSI Joint Tables and Working Groups, based on the definition used by the U.N. System of National Accounts and the International Classification of Nonprofit Organizations (ICNPO) developed by John Hopkins Comparative Nonprofit Sector Project. We therefore included nonprofit and voluntary sector organizations in our study which demonstrated the following characteristics:

- *Organized*: The organization must be institutionalized to some extent, that is, have some institutional permanence.
- *Private*: The organization must be institutionally separate from government and for-profit business.
- *Non-profit-distributing*: The organization must not return profits generated to owners or directors.
- *Self-governing*: The organization must be independent and able to govern its own activities.
- *Voluntary*: The organization must have a significant degree of voluntary participation in the conduct of its activities or its management. Membership is non-compulsory.
  (Hall and Banting, 2000; Salamon, Anheier and Associates, 1998)

While this definition is still somewhat ambiguous, it was useful in establishing a broad set of parameters for our sample population. We also chose to focus on organizations that are organized for "public" rather than "mutual" benefit. Thus, we chose to exclude the following:

- co-operatives and economie sociale groups;
- closed-shop unions and professional or industrial associations; and
- consumer associations.

We also excluded religious organizations and transfer-payment agencies such universities and hospitals that are almost exclusively reliant on government funding and regulations. The very size of these voluntary organizations has been shown to skew the analysis of nonprofit and voluntary sector activity. (Hall notes, for example, that nearly two-thirds of charitable revenues go to hospitals and teaching institutions.) A more extensive discussion of the definition of the nonprofit and voluntary sector is presented in Chapter 2.

## Phase II

Throughout Phase II, we collected data for the project. Data collection proceeded on a number of fronts:

### Key Informant Interviews

The research team consulted with our Advisory Group and various experts on the nonprofit and voluntary sector. We conducted roundtable discussions with groups of public and private sector funders to document the recent evolution of funding practices. We were able to interview representatives from a diverse range of volunteer centres across the country. In addition, we interviewed over 25 individuals, all of whom provided valuable insights into funding trends and the nonprofit and voluntary sector.

**Focus Groups** (2 national and 9 regional groups)

We conducted a series of focus groups to generate both qualitative and quantitative information on the experiences of nonprofit and voluntary organizations which rely on different funding sources and mechanisms. We used two guiding principles in organizing the focus groups:

- regional representation; and
- primary activity or focus of the organization.

Our intent was to solicit the input of groups representing different regional perspectives as well as different subsectors of the nonprofit and voluntary sector, such as those working in the areas of arts and heritage, sports and recreation, and so on.

Initially, we had planned to conduct five regional groups – in British Columbia/ Alberta; Saskatchewan/ Manitoba; Ontario; Quebec; the Atlantic provinces – as well as one group in Ottawa for nationally based organizations. Through the process, we decided to hold additional groups, including a consultation with visible minority and immigrant organizations. We also decided to exclude Manitoba and British Columbia as possible focus group sites. In Manitoba, the Manitoba Voluntary Sector Initiative was already conducting their own focus groups and fielding a survey of 4,000 organizations, so we felt that their views would be ably represented in this work. In British Columbia, significant cuts to nonprofit and voluntary groups were announced in the spring 2001 budget. On the advice of others, we concluded that the experiences of British Columbia groups, while enormously important, would skew our small sample. It would be hard to ask a group about funding trends when they didn't know whether they would be able to keep their doors open next month.

The rationale for focusing on the primary activity or main focus of an organization was twofold. First, as one would expect, there are significant differences across the diverse range of groups that make up Canada's nonprofit and voluntary sector. Certainly the funding landscape varies between arts groups that depend on ticket sales and social service agencies reliant upon purchase of service agreements with governments. As well, adopting the criteria of primary economic activity is consistent with other major research projects on the nonprofit and voluntary sector, both here in Canada and abroad. The National Survey of Nonprofit and Voluntary Organizations (NSNVO) and the Satellite Account of Nonprofit Institutions and Volunteering at Statistics Canada, both sponsored by the Voluntary Sector Initiative, draw on the International Classification of Nonprofit Organizations (ICNPO) developed by the Johns Hopkins Comparative Nonprofit Sector Study. The broad categories of the ICNPO include the following:

- culture and recreation
- education and research
- health
- social services
- environment

- development and housing
- law, advocacy and politics
- philanthropic intermediaries and voluntarism promotion
- international activities
- religion
- business and professional associations, unions
- other.

Similarly, the Panel on Accountability and Governance in the Voluntary Sector and the Joint Tables report used a typology based on these broad categories in their survey work. (The Canadian Customs and Revenue Agency employs a different typology to gather information on registered charities. We chose to use the broader voluntary sector classification schemes which capture both charities and non-charities outlined above.)

Our final classification system included the following subcategories:

- health
- social services
- public policy and research (e.g., poverty, seniors)
- recreation and sport
- arts, culture and heritage
- environment
- international development
- ethnocultural communities
- equality and human rights
- literacy and education
- community benefit organization (e.g., social planning councils, volunteer centres)
- economic development, employment, housing
- other.

In order to capture the range of groups in the nonprofit and voluntary sector, we approached potential host organizations across Canada that are noted for their knowledge of specific subsectors of the nonprofit and voluntary sector. Given the limited size of our study, we wanted to ensure that we were able to talk to representatives from the largest groups in the sector in order to get the broadest coverage possible. Therefore, we approached potential hosts working in recreation and sport, arts and culture, social services, and economic development, employment and housing. The focus group sites and subsector focus are noted below.

| Region | Subsector | | Date |
|---|---|---|---|
| Atlantic | | | |
| • Saint John, NB | cross sector | (CS-NB) | March 18 |
| • Coldbrook, NS | cross sector | (CS-NS) | April 8 |
| Quebec | | | |
| • Montreal | cross sector | (CS-Q) | April 12 |
| • Montreal | ethnocultural associations (2 groups) | (EA-Q) | May 16 |
| Ontario | | | |
| • Toronto | social services/ employment | (SS/E) | March 5 |
| • Toronto | recreation/ sport | (RS) | May 9 |
| • Ottawa | environment | (E) | March 26 |
| West | | | |
| • Edmonton, AB | arts/ culture/ heritage | (A) | March 21 |
| National/ Federal | | | |
| • Ottawa | cross sector (2 groups) | (CS-N) | April 30<br>May 2 |

We asked the host organizations to organize the sessions and recruit focus group participants through their own networks, basing the final selection on the criteria provided. As noted above, our main participant selection criteria was the "primary activity" of the organizations. In addition, we asked our host organizations to consider the following criteria in developing their invitation lists for the focus groups:

- primary funding source
- single/ multiple funding mechanism(s)
- size of budgets and staff
- charitable status
- longevity
- staff composition (paid or volunteer).

Each group was comprised of five to 15 organizational representatives. Two groups were conducted in French. In all, we interviewed approximately 100 representatives from nonprofit and voluntary organizations across the country.

The groups followed a semi-structured format. One researcher presented an overview of the project and outlined the provisions regarding confidentiality, then the facilitator took over the session, following a common agenda. Each session lasted roughly three hours. Participants were asked to detail their sources and mechanisms of funding, then discuss funding trends and the impact of these trends on their organizations. Audio recordings were prepared of most sessions; in addition, the researchers assisted the facilitator in charting group responses and taking notes. At the end of the sessions, the project questionnaire and a self-addressed envelope were handed out, and participants were asked to mail back the completed survey within four weeks. Participants were also asked to complete a short focus group feedback form.

**Survey on Funding Sources and Mechanisms**

Through the focus groups, we distributed a mail-in survey to 104 nonprofit and voluntary sector groups asking questions about funding sources and mechanisms. Each group received a reminder notice about the survey. Fifty-one completed questionnaires were returned, for a response rate of 49%.

The method to identify focus group participants and potential questionnaire respondents – described above – is a nonprobability sampling method. Given the time frame of the project and size of our budget, we determined that a purposive or judgmental sampling method was the best approach to reveal funding trends and their impacts on a broad range of nonprofit and voluntary sector groups. A purposive sampling method is a type of nonprobability sampling method in which the researcher uses his or her own judgement in the selection of sample members (Babbie, 1995). As noted above, we contacted organizations from various subsectors of the nonprofit and voluntary sector to host our focus groups, and each host was asked to invite a cross-section of groups, based on our established criteria.

Findings from studies using a nonprobability sampling method are not as broadly representative of a subject nor as reliable as those from surveys which employ a probability sampling method. However, our survey findings, in conjunction with the findings from our focus groups and case studies, *do* provide persuasive evidence on key funding trends among nonprofit and voluntary sector organizations in Canada.

**Case Studies**

In the latter part of Phase II, we conducted "drill-down" case studies. Through case studies, we hoped to learn something of the day-to-day realities of nonprofit and voluntary to supplement the primary and secondary data collected through the literature review and focus groups. The resulting organizational profiles made is possible to illustrate how different funding sources and mechanisms influenced the ability of nonprofit and voluntary sector organizations to meet their missions and secure sustainability.

The goals of these drill-down case studies were the following:

- establish the financial trajectories of these organizations over time;
- explore their relationships with various funders and funding mechanisms;
- document in detail how changing trends in funding policy, legislation and practices have bolstered or threatened the sustainability of the organization;
- determine the capacity of the organizations to respond to funding reforms; and
- determine what would enhance their ability to achieve their stated organizational goals over time.

Based on the database of organizations generated through our focus groups and the extensive voluntary networks of the CCSD and NVO, we identified a pool of potential case studies. Again, we used a purposive sample; specifically, we used two criteria to guide the final selection of the five case studies:

- primary activity or focus of the organization; and
- different types of funding reliance.

To identify organizations with particular types of funding composition, we used data on total revenues and the proportion from major funding sources. We limited the choice to established organizations with paid staff. While there would have been great value in looking at organizations which rely exclusively on volunteer labour to meet their missions, given the purpose of the study, we felt it necessary to explore in further depth those nonprofit and voluntary sector groups which relied on diverse funding sources.

The research team carried out on-site interviews over the course of one day using a common discussion guide prepared for this purpose. We interviewed key informants of the organization, including the executive director, fund development officer and/or finance and administration officer where available, and board members, if possible. All discussions were taped and the researchers took detailed notes. In addition, selected organizations were asked to provide the following information:

Last five years

- financial statements and/or audited reports
- relevant board minutes and/or reports related to funding and fundraising
- program and fiscal reports for this period.

Last fiscal year

- examples of proposals for funding and signed contracts.

The following chart provides details regarding our case study sample.

| Subsector | Funding Reliance | Date |
|---|---|---|
| Social Service Group, National (SSGN) | earned income, private giving | February 27, 28 |
| Environment Group (EG) | government, private giving | June 18 |
| Social Service Group, Local (SSGL) | government | July 4 |
| Advocacy Group, Quebec (AGQ) | government, private giving | August 23 |
| Arts Group (AG) | earned income, private giving, government | July 3 |

## Phase III

In the last phase of this project, we analyzed the primary and secondary data. Completed questionnaires and supplementary materials were coded and analyzed using bi-variate and multi-variate analyses, as the samples warranted. The quantitative analysis was supplemented by qualitative inquiry, relying on techniques such as content analysis of the literature and discussion transcripts/summaries of the focus groups and case studies. A draft report was prepared. The draft report was submitted to our Advisory Group and to selected experts for comment. With input from these groups, the final report and report summary were prepared, including supporting documentation, in both French and English.

## Appendix B: Portrait of the Nonprofit and Voluntary Sector

### Pressing Questions, Little Information

To date, there has been little research on nonprofit and voluntary organizations in Canadian society and their capacity to meet mission. In an overview of research on this sector, McKechnie et al. concluded that existing research is relatively new, atheoretical and focused on only a small number of topic areas (McKechnie et.al., 2000: 25). Consequently, there are large gaps in our knowledge that demand attention. Some of the most obvious gaps in the literature, McKechnie notes, "pertain to the funding of voluntary sector organizations and capacity issues" (Ibid.).

Few studies have been undertaken to examine the nature of funding in the nonprofit and voluntary sector in Canada.[1] This body of work includes descriptive information about the mix of revenue sources of various nonprofit and voluntary sector organizations (Sharpe, 1994; Hall, 1995; Day and Devlin, 1997; Hall and MacPherson, 1997). As well, other articles have looked at various sources of funding, such as government funding (VSR Joint Tables, *Working Together: Supplementary Paper C: Advantages and Disadvantages of Alternative Funding Methods* 1999), foundation funding (Hall and MacPherson, 1995), corporate donations (Hall and MacPherson, 1996), and earned income (Dart and Zimmerman, 2000; Zimmerman and Dart, 1998). Other studies have focused on the relationship between government and the nonprofit and voluntary sector, notably Josephine Rekart's study of the social service privatization in British Columbia between 1983 and 1991 (Rekart, 1993, 1997), Paul Browne's study of the nonprofit sector for the Canadian Centre for Policy Alternatives (Browne, 1996), and articles by Mitchell Evans and John Shields (1998, 2000), Hall and Reed (1998), and Juillet et.al. (2001). Others have examined the legal and regulatory issues around charities in Canada, which are critical to understanding the complexities of funding (Ontario Law Reform Commission, 1996; Hirshhorn and Stevens, 1997). Work by Susan Phillips on voluntary sector governance and accountability has also provided invaluable insights into key debates shaping funding dilemmas for Canada's nonprofit and voluntary sector (Phillips, 1994; Phillips and Graham, 2000). Community agency and memberships surveys are also important sources of information. The Canadian Conference for the Arts, for instance, regularly surveys members on important trends impacting their sector, including funding (Harvey, 1999).

Fewer studies have looked at the "mechanics" of funding. Supplementary Paper C for the Joint Tables report, *Working Together* (1999), is very useful in defining various funding mechanisms and the advantages and disadvantages of each from the perspective of the government, nonprofit and voluntary sector, and the public. Under the auspices of its Alternative Service Delivery Project, the Canada West Foundation has produced a number of publications, including one on the funding relationship between nonprofits and government. Their research was based on a survey of 72 social service agencies across five provinces and describes the challenges involved in providing social services on contract. Josephine Rekart's study of social service organizations in British Columbia is an excellent case study of social service agencies struggling with changing funding practices. Paul Reed and Valerie Howe have explored the impact of funding trends for social service agencies in Ontario, through extensive interviews with 40 agencies (Reed and Howe, 1999). Laura Brown and Elizabeth Troutt are currently conducting research on nonprofit and voluntary organizations in Manitoba and their relationships with funders (2000a, 2000b, 2000c, 2002).

Drawing on this body of work, we present a portrait of the nonprofit and voluntary sector below. This provides both the context and the base upon which our current research project is grounded.

## Size and Scope of the Nonprofit and Voluntary Sector

Given the growing level of interest in the nonprofit and voluntary sector, there is surprisingly little information available about the sector and the role that it plays in Canada. Certainly the *National Survey of Giving, Volunteering and Participating* provides valuable information on volunteering: who volunteers are, where they volunteer, the number of hours they commit to volunteer activities, and their motivation.[2] The Family Expenditure surveys and income tax files also provide important information about donations to charitable organizations. But we have very little information about the organizations themselves. Even for charities – about which we know the most – there are huge discrepancies among different data sources regarding such basic information as size and total revenues.[3] Information on nonprofit and voluntary organizations that are not registered charities is almost non-existent. One author has described these groups as the "dark matter ignored in prevailing 'Flat Earth' maps of the sector."[4][5]

The available data, while lacking, do provide a useful benchmark against which to measure the findings of our study. We know that in 1999, there were roughly 79,000 registered charities in Canada; in addition, there are an estimated 100,000 nonprofit corporations in Canada (Quarter, 1992: 208).[6] According to Hirshhorn, if we added up all the incorporated and non-incorporated organizations, the number of nonprofit and voluntary organizations would likely exceed 200,000 (Hirshhorn, 1997: 8).[7] And it is growing every year. For charities alone, roughly 1,000 are added to the rolls each year, according to the Canadian Customs and Revenue Agency (CCRA) (cited in Donovan, Nov. 16, 2002). Between 1991 and 1999, the charitable sector grew by 26.4% (Sharpe, 2001: 15). Growth in the number of nonprofit and voluntary organizations is not unique to Canada. Studies in other countries document an increase in the formation and activism of voluntary organizations. In fact, one leading scholar believes that the magnitude of the growth of the nonprofit and voluntary sector signals an "associational revolution" that could be as significant as the rise of nation states in earlier centuries (Salamon, 1995, cited in Hall and Banting, 2000: 2-3).

Charities are active in a range of areas across Canada.[8] Table B.1 provides a breakdown of charities for 1991 and 1999, by their activities in 10 broad sector groupings.[9] Public foundations, private foundations and charitable organizations are included under each subsector. In 1999, the largest charitable sector was religion, comprising 41% of all registered charities. The next was welfare at 18%, followed by benefits to the community (11%). As can be seen, benefits to the community (excluding recreation), other education, and the welfare sector experienced the highest levels of growth over this period. With the exception of hospitals, the number of charitable groups has increased steadily. Even as some groups disband, or let their charitable status lapse, other groups are being formed and applying for charitable status.

**Table B.1: Changes in the Composition of Canada's Charitable Sector, by Sub Sector, 1991–1999**

| Charity Type | Share December 1991 | Share February 1999 | Growth 1991–99 |
|---|---|---|---|
| Arts and Culture | 4.5% | 4.6% | 29.0% |
| Community Benefit | 9.7% | 11.3% | 49.3% |
| Educational Charities | 7.0% | 8.1% | 48.3% |
| Health Charities | 5.8% | 6.2% | 37.0% |
| Hospitals | 1.8% | 0.9% | -38.2% |
| Other | 2.6% | 2.2% | 6.1% |
| Recreation | 4.0% | 3.9% | 21.4% |
| Religion | 45.2% | 40.8% | 13.9% |
| Teaching Institutions | 3.7% | 3.9% | 31.2% |
| Welfare | 15.5% | 18.0% | 45.8% |
| All charities | 100.0% | 100.0% | 26.4% |

Source: CCRA, T3010. David Sharpe, "The Canadian Charitable Sector: An Overview," *Between Market and State*, J. Phillips, B. Chapman and D. Stevens, eds. (Montreal & Kingston: McGill-Queen's University Press, 2001), p. 18-19.

As noted above, we have very limited information about "noncharitable" organizations in the nonprofit and voluntary sector. Since 1993, all nonprofit organizations with revenues over $10,000 or assets over $200,000 have been required to file an annual return with the CCRA (form T1044), but it is widely conceded that compliance is quite low. In the one study that has examined these data in detail, there were 4,490 returns out of an estimated population of 100,000 organizations in 1994. Based on this sample, Day and Devlin found that nonprofit and voluntary groups were active in a number of fields: agriculture (10%); recreation (7%); professional associations (8%); boards of trade (1%); civic improvement (2.5%); education (3%); multicultural (0.4%); and arts and culture (2.3%). The remaining two-thirds of the reporting organizations were grouped in the "other" category (Day and Devlin, 1997: 26-31).

## Paid Staff and Volunteers

Another key dimension of our organizational portrait of the sector is the composition of its labour force. Two important studies of human resources within the nonprofit sector have been conducted. The first was by Paul Browne and Pierrette Landry for the Canadian Centre for Policy Alternatives in 1995. They surveyed charities, cooperatives, trade unions and environmental groups, asking about human resources and employment practices.[10] In their study, 83% of third-sector organizations had paid employees. The average number of staff per organization was 19, but the median number of employees was, in fact, only four. This large difference between the average number of employees and the mean number speaks to a distinctive employment pattern evident among nonprofit and voluntary groups, and among charities in particular. The majority of nonprofit and voluntary organizations (65%) had five paid employees or less in the 1995 CCPA study, while 35% had six or more. Yet there was a small group of nonprofit and voluntary groups – notably in the health and education fields – with large numbers of employees. The presence of large institutions such as hospitals serves to boost the average number of employees. Among charities grouped under "Benefits to the Community," for example, we see a more even distribution of paid staff: 76% of these charities had five or fewer employees (14% had no employees), and 24% had six or more. The average number was seven.

Most of the paid positions in the CCPA study were full-time. On average, nonprofit and voluntary organizations had 12 full-time positions, and seven part-time positions – roughly a 1:2 ratio. Browne and Landry also noted that, on average, more women than men were employed in full-time and part-time positions – figures which reflect the relatively high concentration of women employed in the nonprofit and voluntary sector. Looking at the occupational breakdown, roughly one-third of employees were in management positions, about 40% were professionals or service providers, about 16% were clerical and administrative support staff, and 8% were in other positions. All of these positions were more poorly paid than similar positions in other industries, with the exception of jobs in trade unions. Similarly, fewer nonprofit and voluntary organizations provided benefits to their employers than were available to those in other private and public industries. The discrepancies were particularly pronounced among environmental groups, reflecting the fact that "younger" groups tend to have smaller budgets and employ fewer full-time staff.

More recently, the Canadian Policy Research Networks has released a study of human resources in the nonprofit sector, based on an analysis of the Workplace and Employee Survey (WES) 1999. McMullen and Schellenberg identified almost 60,000 non-profit business establishments, representing a total of 900,000 workers and 8% of all employees in 1999.[11] Data from the WES shows that just over half of all non-profit establishments – 53.4% – had fewer than five paid employees in 1999, and close to three-quarters employed fewer than 10 workers. Larger workplaces were more prevalent in the quasi-public sector – which here include hospitals and universities – where close to 40% had 50 or more employees.

Overall, 74% of employees were employed on a full-time basis.[12] Compared to the for-profit and quasi-public sector, a larger proportion of employees are employed on a temporary or part-time basis – 14% and 26% respectively of all non-profit employees. Women account for the majority of employees, as found by Browne and Landry; they represented three-quarters (74%) of all paid employees in the non-profit sector in 1999. Employment in the non-profit sector, as in the quasi-public sector, tends to be dominated by professionals; one-third of employees are classified as such. Similarly, one-third of employees worked in technical or trade positions, while 15% worked as managers, and 11% worked in clerical or administrative positions. Overall, average earnings for managers, professionals and technical or trades workers lagged behind those in the for-profit sector, and significantly lagged behind those in the quasi-public sector. Earnings of those engaged in clerical work were comparable to those in the for-profit, but less than those in the quasi-public sector. "Only a minority of non-profit employers offer benefits, ranging from about 38% in the case of supplemental medical insurance and about one-third for dental plans, to close to 30% for employer-sponsored pension plans or group RRSPs, and 6% in the case of supplemental Employment Insurance" (McMullen and Schellenberg, 2003: vii). Two-thirds of nonprofit employees reported that they were satisfied with both their job and their pay and benefits in 1999. This is similar to self-reported job satisfaction in the for-profit and quasi-public sectors. However, job satisfaction was much lower among nonprofit workers over the age of 45 than among other workers.

The other key source of human resources for any nonprofit and voluntary organization is volunteers. The presence of volunteers can be difficult to interpret, in part, because the range volunteer activities varies so widely. Some groups use volunteers primarily to govern their organizations, while others such as Big Brothers, Big Sisters, for example, draw extensively upon volunteers to deliver their programs. Some organizations use volunteers to conduct large, one-time fundraising drives or campaigns. Others rely on a highly committed core of volunteers each week to deliver programs. This diversity reveals the complexity of talking about human resources in any nonprofit and voluntary organization.[13]

Luckily, we have excellent information on volunteering, thanks to the National Survey on Giving, Volunteering and Participating (NSGVP) and the work of volunteer centres across Canada. Findings from the most recent NSGVP survey in 2000 point to contradictory trends for nonprofit and voluntary organizations. Overall, the volunteering rate – the proportion of Canadians over age 15 who volunteered their time and skills to groups or organizations – was 26.4% in 2000. Volunteers that year donated over one billion person-hours to voluntary endeavours – the equivalent of more than 500,000 full-time jobs. The volunteering rate, however, has fallen: between 1997 and 2000, the rate fell by five percentage points. Similarly, the number of hours donated also fell, from 1,108 hours in 1997, to 1,053 hours in 2000. Commentators note that there appears to be a relatively stable "civic core" of Canadians who are donating their time and income to the nonprofit and voluntary sector: 7–8% of all adult Canadians accounted for about half of all hours volunteered and all charitable dollars donated in 2002.[14] This points to the difficulty that organizations are experiencing recruiting *new* volunteers, especially younger community members, because of time pressures related to families and jobs.[15]

## Financial Resources of Nonprofit and Voluntary Sector

### Level of Funding

As the nonprofit and voluntary sector has grown, so too have the financial resources at its disposal. Again, while data are limited, we know that the nonprofit and voluntary sector commands significant resources and represents a sizeable proportion of the economy. In a 1997 study, Kathleen Day and Rose Ann Devlin reported that Canadian charities – less than half the estimated number of nonprofit and voluntary organizations – received $58.5 billion in revenues in 1994 (Day and Devlin, 1997: 13).[16] More recent data from CCRA reveals that Canadian charities received $80 billion in 1999. This represents a nominal increase of more than $20 billion dollars. When we take inflation into account, there was an increase of $16 billion dollars in funding for the charitable sector between 1994 and 1999. Looking at the economic value of the sector, Day and Devlin estimated that the contribution of the nonprofit sector as a whole to the Canadian economy was in the order of 4% of GDP in 1994 (Day and Devlin, 1997: 33). The Canadian Centre for Philanthropy (CCP) has valued the contribution of charities alone at 13% of GDP (Hall and Banting, 2000: 15).[17] Many would argue that even these figures do not fully capture the magnitude of the sector, and the figures certainly do not capture the huge social and economic contributions to Canadian life (See Day and Devlin, 1997).

The acknowledged diversity of the nonprofit and voluntary sector is evident in the level and sources of funding for nonprofit and voluntary groups. Certainly among charitable groups, all types of charities do not have the same access to funds. Table B.2 looks at the distribution of revenues by type of charity.

**Table B.2: Distribution of Charitable-Sector Revenues, by Charity Type, 1999**

| Charity Type | Share of all Charities in Canada | Share of all Charitable Sector Revenues |
|---|---|---|
| Community benefit | 13% | 5% |
| Educational charities | 9% | 6% |
| Health charities | 7% | 6% |
| Hospitals | 1% | 30% |
| Other | 1% | 0% |
| Places of worship | 34% | 6% |
| Private foundations | 5% | 6% |
| Public foundations | 5% | 1% |
| Religious charities | 5% | 3% |
| Teaching institutions | 4% | 28% |
| Welfare | 15% | 10% |
| All charities | 100% | 100% |

Source: CCRA, T3010. David Sharpe, "The Canadian Charitable Sector: An Overview," *Between Market and State*, J. Phillips, B. Chapman and D. Stevens, eds. (Montreal & Kingston: McGill-Queen's University Press, 2001), p. 23.
Note: Percentages may not add up to 100 because of rounding; "0" indicates 0 to 0.5%.

By far the largest recipients of charitable revenues are Canadian hospitals and teaching institutions. These institutions comprise only 5% of all charities, yet they account for over half of all revenues. By contrast, religious institutions account for over one-third of all charities, yet they receive only 6% of the sector revenues. These data illustrate the significant differences in the financial capacities of charities – and certainly all nonprofits. This point is forcefully evident by looking at the distribution of revenues among charitable organizations. In 1995, 80% of charities reported revenues under $250,000, amounting to 5.4% of total sector revenues; by contrast, 7% of charities reported revenues of over $1 million, accounting for 87.7% of total revenues (Dreessen, 2000: 14). Succinctly stated, "the size distribution of charities is highly skewed."[18]

## Sources of Revenue

Similarly, patterns of funding vary across the nonprofit and voluntary sector, and they derive their income from a variety of sources: donations, government grants and payments; membership fees; income from commercial ventures; and income from other nonprofit and voluntary sector organizations such as foundations or religious organizations. In addition to direct payment from these sources, nonprofit and voluntary organizations are also heavily dependent upon in-kind support from individuals and businesses in their communities, as well from governments and other charitable organizations.

Although this list of income sources may seem extensive, not all organizations are able – or, in fact, want – to take advantage of each source. There are different funding patterns or mixes evident across the nonprofit and voluntary sector, each linked to the diverse structures, mandates, and services of the organizations. The ability of organizations to pursue different funding sources is also uneven. What is certain – as will be evident from our survey findings – is that all nonprofit and voluntary organizations face high levels of financial uncertainty, regardless of their specific funding profile.

Table B.3 shows the revenue mix of various charitable organizations in 1994. (It is important to note that charities form a special group of nonprofit and voluntary organizations, in that they can issue receipts for donations and are exempt from income taxes. The available data on sources of charitable sector revenues, therefore, must be interpreted with caution.) Overall, roughly 60% of charitable revenues reported in 1994 came from government grants and payments[19]; earned income accounted for 26%, and private giving accounted for 14% of total revenues.[20] At one end of the spectrum, places of worship depend primarily on donations to undertake their work; at the other end, hospitals and teaching institutions are heavily dependent upon government to meet mission – over 70% of their revenues come from government.[21] Charities engaged in community service – such as education, health and social services – follow closely behind, relying on government for about 60% of their funding. For these groups, the name "charity" is arguably a misnomer, if charity is understood to mean primary dependence on donations rather than government grants and payments for funding.[22] Recreational organizations and arts and cultural groups, by contrast, are much more dependent upon earned income from membership fees, dues, and the sale of goods and services to sustain their activities.

**Table B.3: Sources of Revenues of All Charitable Organizations, 1994**

| Charity Type | Government | Earned Income | Private Giving |
|---|---|---|---|
| Arts and culture | 50% | 40% | 10% |
| Community benefit | 64% | 24% | 12% |
| Educational charities | 61% | 31% | 8% |
| Health charities | 64% | 20% | 16% |
| Hospitals | 73% | 24% | 2% |
| Libraries and museums | 74% | 17% | 9% |
| Other | 6% | 28% | 66% |
| Places of worship | 1% | 18% | 81% |
| Recreation | 27% | 58% | 15% |
| Religious charities | 13% | 46% | 41% |
| Social services | 64% | 25% | 15% |
| Teaching institutions | 71% | 26% | 3% |

Source: Hall and MacPherson, 1997. Cited in Hall and Banting 2000: 14. This study, published by the Canadian Centre for Philanthropy, used a modified version of the CCRA classification system for charities.

Note: Public and private foundations have been excluded from this table. Revenue from government includes grants and other receipts. Revenues from earned income includes: memberships; subscriptions; fees received; investment and property income; net realized capital gains (losses); income (loss) from any "related business"; other income (i.e., fundraising not reported under gifts). Private giving includes: total tax-receipted gifts; amount of tax-receipted gifts received from other charities; and total other gifts for which "official receipts have not been and will not be issued."

Government is the primary funder of the nonprofit and voluntary sector in Canada. While the proportion of its support may differ among various subsectors, its importance to the long-term health and sustainability of nonprofit and voluntary organizations cannot be overstated. All levels of government provide direct financial support to nonprofit and voluntary organizations, as well as indirect support through the tax system and in-kind contributions, including access to government-funded facilities such as concert houses, swimming pools, community centres and libraries. Looking at direct support to charities – the only group for which we have comprehensive data – it has been estimated that the federal government provides 10.5% of the government's total support to the charitable groups; 84.2% is provided by provincial governments, and local governments provide 5.3% (Treasury Board Secretariat, 2001).

## Federal Government Funding for the Nonprofit and Voluntary Sector

As a part of the Voluntary Sector Initiative, the federal government tasked the Voluntary Sector Project Office of the Treasury Board Secretariat to gather information and analyze current federal funding practices and policies related to the nonprofit and voluntary sector. Part of this exercise was to identify current spending through various funding programs and vehicles, in order to assist in the broader mandate of the Secretariat to:

- remove funding irritants and encourage best practices;
- provide greater consistency across federal departments; and
- improve government's ability to act strategically to strengthen sector capacity.

The following is a summary of their findings on federal spending. It represents the most detailed estimates of government spending available.

Total federal funding to the nonprofit and voluntary sector reached approximately $5.7 billion in 1997-98.

- Tax assistance to registered charities accounted for $1.5 billion in foregone revenues, of which more than $1.3 billion (79%) originated from the personal income tax credit, $150 million from the corporate income tax credit, and $160 million (11%) from GST rebates.
- Direct federal spending to the nonprofit and voluntary sector amounted to $4.2 billion, of which two-thirds was spent on contributions to support program delivery by public and mutual benefit organizations; 27% in grants to fund research activities of hospitals and post-secondary institutions; and 7% in contracts for specified professional services.

In 1997-98, direct federal spending to the voluntary sector was in excess of $4 billion, of which:

- 47% ($1.9 billion) was channelled to fund activities performed in hospitals and post-secondary education institutions (quasi-governmental organizations);
- 20% ($860 million) funded "mutual benefit" nonprofit and voluntary organizations; and
- 33% ($1.4 billion) went to activities of "public benefit" organizations.

Payments in excess of $100,000 accounted for about 60% ($2.5 billion) of all payments made.

Looking at federal tax assistance, foregone revenues resulting from tax assistance measures increased by almost $500 million between 1994 and 2000, reflecting successive improvements in tax assistance to registered charities. The value of tax assistance climbed from $1.1 billion in 1994 to $1.75 billion in 2000.

Source: Treasury Board Secretariat, *Study of Federal Funding Practices and Policies*, 2001. (John Walker Study)

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This snapshot of charitable revenues raises the question: Does the funding mix change over time? That is certainly a central question of the current study. Day and Devlin address this in their 1997 report on Canadian nonprofits, tracing the importance of various revenue sources for all registered charities between 1989 and 1994. They found that the balance between different revenue sources did change, but not necessarily in predictable ways. Income from donations (both receipted and unreceipted) fell from 21.8% of total revenues in 1989, to 11.3% by 1994. The largest drop was between 1989 and 1990, coinciding with the onset of the recession. At the same time, the share of total revenues coming from government increased over this period, from 42.8% in 1989, to 60.2% in 1994 (Day and Devlin, 1997: 16).[23] This would suggest that government funding has become more critical to the financial health of nonprofit and voluntary organizations.

As noted above, changes in the mix of funding sources among Canadian charities through the early 1990s took place as revenues steadily increased. Yet looking at the nonprofit and voluntary sector as a whole, there have been winners and losers. Browne and Landry found that for the majority of "non-governmental groups and agencies," government funding from the federal and provincial governments had decreased or stayed the same. Only 22% of groups said their provincial funding had increased, while 17% stated that their federal funding had increased between 1992 and 1995 (Browne and Landry, 1996: 33). In a survey of social service agencies in Ontario, Howe and Reed found that twice the number of agencies experienced a loss of income between 1993 and 1997 than had experienced an increase (Howe and Reed, 1999: 21). These findings reinforce the importance of probing behind aggregate data, particularly for a group as heterogeneous as the nonprofit and voluntary sector.

### Expenditures

This is the revenue picture of Canadian charities. On the expenditure side, registered charities reported spending 66.2% of their budgets on programs in 1994, 14.8% on administration, and 1.5% on costs related to fundraising. Gifts to "qualified donees" made up 4.0% of expenditures and another 13.4% was spent on "other" (Day and Devlin, 1997: 18).[24] This spending pattern was fairly stable between 1990 and 1994: program spending increased slightly from 64.7% in 1990, to 66.2% by 1994, while administrative and fundraising costs were flat.

Looking at fundraising more closely, Day and Devlin note that charities received a total of $6.4 billion in donations, and they spent $852 million on fundraising in 1994 (Day and Devlin, 1997: 19). This would appear to be a high return on fundraising expenditures. Yet the authors caution that these data are misleading. Only a few organizations actually reported fundraising expenditures – less than one-quarter. At the very least, there would appear to be general confusion about how to report on fundraising expenditures. This is an important point, because the push for self-sufficiency on the part of funders and the increasing intensity of competition for dollars has changed the funding environment substantially over the last decade.

### Assets and Debt

A final word on assets and debt. In their study, Day and Devlin note that the real value of charities' assets and liabilities has been increasing steadily. In 1994, the total value of charitable assets reported on the T3010 form was $81.2 million – a marked increase from 1989 – while total liabilities reported were $25.4 million (Day and Devlin, 1997: 25). Given the increase in organizational revenues reported in subsequent studies, it would seem reasonable to assume that assets and liabilities have continued to climb. The new *Satellite Account on Nonprofit Institutions and Volunteering* will provide greater insight into this question.

## Endnotes

[1] The Queen's School of Policy Studies has published three excellent collections of essays on the nonprofit sector that contribute to the growing literature about the nonprofit and voluntary sector (Banting, 2000; Brock and Banting, 2001; Brock, 2002).

[2] Michael Hall, Larry McKeown, and Karen Roberts. *Caring Canadians, Involved Canadians: Highlights from the 2000 National Survey of Giving, Volunteering and Participating*. Ottawa: Statistics Canada, 2001. Catalogue No. 71-542-XPE.

[3] A registered charity is a charitable organization, private foundation, or public foundation, as defined in the Income Tax Act, that is resident in Canada and was either created or established in Canada; or a branch, section, parish, congregation, or other division of an organization or foundation as described above that is resident in Canada and was either created or established in Canada and that receives donations on its own behalf. The key source of hard information is the annual tax return (T1 and T3010), which must be filed annually by registered charities with the Canada Customs and Revenue Agency (CCRA), but this provides only limited data on the distribution of charities by broad sector, and some limited financial data. There are major concerns regarding the accuracy of charity returns, which are not checked and often fail to add up or make sense. See Kathleen M. Day and Rose Ann Devlin. *The Canadian Nonprofit Sector.* Canadian Policy Research Networks Working Paper #2, 1997. (See also, Erwin Dreessen. "What do we know about the Voluntary Sector? An Overview," a paper in the Nonprofit Sector Knowledge Base Project, Statistics Canada, 2000.)

[4] There are a number of activities underway at this time to begin to fill in some of these gaps in our knowledge. For instance, the federal government , through the VSI, is funding the first-ever survey of nonprofit and voluntary sector organizations. A research consortium headed by the Canadian Centre for Philanthropy, and working in conjunction with Statistics Canada, is preparing a two-phase survey – entitled the National Survey of Nonprofit and Voluntary Organizations (NSNVO) – which will be fielded in the fall of 2002 and winter 2003. Statistics Canada is also heading up another important initiative – the Satellite Account of Nonprofit Institutions and Volunteering – which will provide annualestimates of the financial status and economic contribution of nonprofit organizations.

[5] D.H. Smith. "The Rest of the Nonprofit Sector: Grassroots Associations as the Dark Matter Ignored in Prevailing 'Flat Earth' Maps of the Sector," *Nonprofit and Voluntary Sector Quarterly*, 26 (2), 1997, 114-31.

[6] This estimate is based on work by Jack Quarter and is widely cited. See Jack Quarter, *Canada's Social Economy: Co-operatives, Non-profits and Other Community Enterprises* (James Lorimer & Co., 1992). This estimate excludes cooperatives which, according to a 1999 Government of Canada estimate, number 10,000. Government of Canada. "Engaging the Voluntary Sector," paper by the Voluntary Sector Task Force, Privy Council Office, February 1999.

[7] Another source of information on the nonprofit and voluntary sector is the *Business Register*, which is compiled by Statistics Canada. In 2002, 96,000 nonprofit entities were contained in the Register, 15,000 of which were inside government (including hospitals and universities). This count of nonprofit institutions – numbering 81,000 – underestimates the size of the nonprofit sector because a number of groups were excluded, including unincorporated organizations that do not employ paid workers or collect the GST. See

McMullen and Schellenberg, "Mapping the Nonprofit Sector" 2002: 18-19.

[8] It should be noted that the definition of a charity and their areas of work are hotly contested by many in the voluntary sector. See Chapter 6.

[9] In 1999, there were 71 categories enumerated in the CCRA charity regulations.

[10] Paul Leduc Browne and Pierrette Landry. *The "Third Sector" and Employment* Final Report to the Department of Human Resources Development (Ottawa: Centre for Policy Alternatives, March 1996). See pp. 10-16.

[11] Kathryn McMullen and Grant Schellenberg. "Mapping the Non-profit Sector," CPRN Research Series on Human Resources in the Non-profit Sector, No. 1, December 2002. See also, Kathryn McMullen and Grant Schellenberg, "Job Quality in Non-Profit Organizations," CPRN Research Series on Human Resources in the Non-profit Sector, No. 2, January 2003. Please note that discrepancies in the estimates of the number of voluntary or nonprofit organizations stem primarily from the different data sources, the groups captured in those surveys, and their methods of collection. Also note that their estimates for nonprofits do not include organizations such as hospitals, which are classified in this current study as quasi-public sector institutions.

[12] The following data are drawn from both CPRN reports.

[13] The NSGVP reports on 15 different types of volunteer activities. More than half of volunteers in 2000 helped to organize or supervize activities or events (57%); another 41% served as a board or committee member; and 40% were involved in canvassing, campaigning or fundraising. Less than 30% were involved in direct programming such as collecting or delivering food, providing care or support, or teaching (Hall et al., 2001: 41).

[14] Paul Reed and K. Selbee. "The Civic Core in Canada: Disproportionality in Charitable Giving, Volunteering and Civic Participation," *Nonprofit and Voluntary Sector Quarterly*, 30(4), 2001.

[15] According to the 2000 National Survey of Giving, Volunteering and Participating, the most frequent reason given by volunteers for not volunteering more – or by non-volunteers for not volunteering at all – was lack of time: 76% of volunteers and 69% of non-volunteers surveyed cited this reason (Hall et. al., 2001: 44).

[16] A study for the Canadian Centre for Philanthropy estimated that Canadian charities received $90.5 billion in revenues in 1994, using a methodology developed by Sharpe in his 1994 study, *A Portrait of Canada's Charities* (Hall and MacPherson, 1997: 1). There is obviously a large discrepancy between the figures produced by the CCP and those produced by Day and Devlin for the same year. A discrepancy of this magnitude is due in part to problems with the collection and reporting of charitable data by CCRA, particularly before 1995. In addition, while all charities are required to submit T3010 tax forms each year, many provide incomplete information. Researchers such as David Sharpe and those at the CCP have attempted to deal with these problems by adjusting the financial data attained from the T3010. The difference between Sharpe's study – and subsequent work employing his methodology – and analyses based strictly on T3010s is significant. The patterns in funding, however, are similar. For a review of available financial data on charitable and other nonprofit and voluntary organizations, see Dreessen 2000.

[17] The Satellite Account of Nonprofit Institutions and Volunteering Project at Statistics Canada will provide the first definitive estimates of the economic contribution of the non-profit sector through its role as employer and provider of goods and services.

[18] Day and Devlin estimate that, based on their sample of registered charities drawn from the T3010 data set, 63.2% of charities had revenues under $100,000; 29.8% had revenues between $100,000 and $1 million; and only 7.0% had revenues of over $1 million. They note, however, that there are serious problems with underreporting, particularly among "large" organizations (Day and Devlin, *The Nonprofit Sector in Canada*, 1997): 23.

[19] It is important to note that the data presented on government support only include direct payments to nonprofit and voluntary organizations. All levels of government provide indirect support through the tax system and varying degrees of in-kind support. The value of this support varies widely. To our knowledge, there is no comprehensive study of government financial support to the nonprofit and voluntary sector.

[20] Donations can include cash, a person's home or cottage, securities such as stocks and bonds, land, building and equipment used in a business or rental operation, jewelry, art, stamps or other items of value. Receipts are issued for the value of the gift. In turn, individuals can apply for federal and/or provincial tax credits, while corporations can deduct a proportion of the value of the donation against their income tax.

[21] It is important to keep in mind that hospitals and universities account for over 50% of all charitable revenues. The high reliance on government grants and payments among these groups affects the averages for the sector.

[22] There have been a number of studies of the social services sector alone. Reed and Howe, for example, report that the social services in their study relied on government for 80% of their revenues (Reed and Howe, 1999: 22). Josephine Rekart reports a similar finding in her study of social service groups in British Columbia (Rekart, 1993: 71).

[23] Day and Devlin comment that the reliance of charities on governments is not unique to Canada. The share of public funding in the total revenues of nonprofit organizations was 30% in the United States and 40% in the United Kingdom. By contrast, private sector giving in these two countries made up only 19% and 12% of total revenues respectively (Salamon and Anheier, 1994, Appendix F; cited in Day and Devlin, *The Canadian Nonprofit Sector*, 1997: 16).

[24] David Sharpe presents data on expenditures for the "other charitable organizations." This subgroup of total charities includes all charitable organizations with the exception of places of worship, hospitals, teaching institutions, and public and private foundations. In 1993, they spent 65% of their funds on programs and 17% of revenues on administration; 3% was directed to fundraising costs, while another 4% was donated to other charities. One per cent was accumulated, with the permission of the CCRA (Sharpe, *The Canadian Charitable Sector*, 2001: 27).

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